

EXHIBIT C



Bank Audi

**ANNUAL REPORT
2020**

STATEMENT OF THE CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER

Dear stakeholders,

By any measure, the year 2020 was an atypical year by all means. It was the year of a global pandemic, underscoring a global recession that has affected a lot of us on an individual and business level.

On this challenging backdrop, Lebanon, where the Group has the majority of its operations, has also been facing, for more than a year and a half now, a series of crises: political, economic, financial, banking, and social, unprecedented in scope and scale, which has affected the entire Lebanese banking sector, creating major disruptions in activity and operating conditions. This was further amplified by the dramatic explosion of the Beirut port on 4 August 2020, leading to severe economic and infrastructural damages, unseen during the Lebanese civil war.

The spillover effects of the COVID-19 pandemic on all markets of presence, compounded with the impact of the Lebanese crisis on the Group, prompted the Bank to further restrict its development or growth. In the absence of a credible and comprehensive macro-financial reform program to resolve the Lebanese crisis, and in light of the prevailing market uncertainties, it remained extremely difficult to build accurate future plans regarding the Bank's business model and its wider strategy.

While watching events unfold around us, our priorities for 2020 were geared towards the consolidation and de-risking of the domestic franchise and operations, the strengthening of capital buffers, and the ring-fencing of foreign entities and branches from Lebanon spillover effects, while also fully meeting the newly arising regulatory requirements.

Within this context, we at Bank Audi continued to exert extended efforts in 2020 to consolidate the Bank's financial position, reinforce its financial standing and strengthen its solvency and ability to withstand additional pressures on operating and financial conditions, specifically in Lebanon. These efforts actually covered the following:

- 1- Decreasing its exposure on Lebanese government Eurobonds: from a portfolio of USD 1.98 billion in nominal terms as at 31 December 2019 to a mere USD 9.1 million in net terms (of which USD 2.9 million held in entities in Lebanon) as at 31 December 2020.
- 2- Increasing core equity by an amount of USD 209 million, as shareholders representing 65% of the Bank's capital, among which EBRD, participated in the cash contributions issuance, signaling a renewed commitment to support the Bank amidst the prevailing exceptional situation. In addition, the Bank received dividends amounting to USD 110 million during the course of 2020 (of which USD 30 million in fresh funds), accumulating as such USD 319 million in cash capital during the year. As a result, the Bank's capital adequacy ratio exceeded in all its components the minimum regulatory requirements.
- 3- Selling four of our foreign operations, with the sale proceeds expected to largely cover and exceed the remaining USD 303 million of capital requirements as per BdL Intermediary Circular 567. Initiated in February 2020, ongoing discussions with First Abu Dhabi Bank culminated in the signing, on 20 January 2021, of a Share Purchase Agreement for the sale of 100% of the share capital of Bank Audi sae (Egypt) and the assignment of the subordinated debt previously provided by Bank Audi to its subsidiary in Egypt. Sale proceeds aggregate to USD 660 million, a price supported by the fairness opinion provided by JP Morgan to the Bank's Board of Directors. The transaction, representing the best outcome for all constituencies of Bank Audi, was finalised in the second quarter of 2021 following receipt of all regulatory approvals.

On 29 December 2020, Bank Audi entered into business transfer agreements with Capital Bank of Jordan for the sale of Bank Audi sal – Jordan & Iraq Branches. The transactions were completed on 11 March 2021, after obtaining the approval of regulators and of the Bank's Ordinary General Assembly. Over and above the cash consideration, the price was structured in a manner to effectively cancel the significant international liabilities carried by Bank Audi Lebanon in favour of Bank Audi Iraq.

In addition, early 2020, Banque Bemo Saudi Fransi expressed its interest in acquiring Bank Audi's fully impaired investment in Bank Audi Syria (BASY), fulfilling the Bank's key pre-condition to seek the Central Bank of Syria for the change of name of Bank Audi Syria. Completed on 29 March 2021, the transaction allowed Bank Audi to conclude its exit from Syria initiated in 2016, while protecting itself from the heightened and increasing compliance risk the Group was facing tied to its profile as the single largest shareholder.

Proceeds from the sale of the Bank's operations in Egypt, Jordan and Iraq, and of its investment in Bank Audi Syria aggregated a cumulative USD 841 million, increasing stand-alone equity by USD 306 million, of which USD 291 million in fresh dollars, driving a further improvement in CET1 and total capital adequacy ratio, reaching respectively 10.2% and 14.3% on a pro-forma basis as at end-December 2020, compared to regulatory requirements of respectively 4.5% and 8%.

- 4- Strengthening the Group's foreign currency liquidity levels to create an important buffer allowing to absorb turbulences. The sale of foreign operations contributed to increase the Bank's foreign liquidity by USD 694 million. In addition and in common with other Lebanese banks, we introduced several measures to attract foreign liquidity or fresh funds in order to cover

our offshore liquidity needs and boost our liquidity placements abroad. As a result, starting end-February 2021, the Bank complied with the 3% requirement of the Central Bank of Lebanon, in terms of offshore foreign liquidity as a percentage of total deposits in foreign currencies at 31 July 2020. Still, a lot needs to be done as we still do not consider our offshore foreign liquidity levels sufficient to cover all our offshore commitments as they become due, and thus restore the activities of the Bank to normal levels as at before October 2019.

- 5- Continuing to deleverage loans to the private sector, while maintaining a close monitoring of the lending portfolios, taking early remedial actions on problematic files and providing adequate provisioning coverage.

- 6- Executing a wide cost rationalisation policy, particularly in Lebanon.

On the financial front, consolidated assets of Bank Audi contracted by 10.4% in 2020, from USD 39.5 billion as at end-December 2019 to USD 35.4 billion as at end-December 2020, and reached USD 44.2 billion when including fiduciary deposits, security accounts and AuMs. Bank Audi reported a net loss of USD 145 million in 2020 compared to a net loss of USD 602 million in 2019. Those losses arise from the one-off costs association with a number of remedial measures reaching USD 1.1 billion in 2019 and USD 754 million in 2020. Adjusted to those flows tied to the Lebanese Crisis, consolidated net profits of Bank Audi would have moved from USD 489 million in 2019 to USD 609 million in 2020, representing an increase by USD 120 million or 24%.

I am equally conscious that the Group's activity and results remain closely linked to the overall political, social and economic situation in the region and in particular in Lebanon. Given the government fallout, the deepening recession, the currency crisis and the hyperinflation prevailing in Lebanon, the financial position of the Group does not reflect the adjustments that would be required by IFRS. In particular, the emergence of several widely diverging exchange rates compared to the official exchange rate is making it very difficult to estimate the required adjustments to these financial statements with respect to any future change in the official exchange rate and/or alternative legal exchange mechanism. Within the persisting uncertainties, Management is unable to estimate in a reasonable manner or within a reasonable timeframe the adverse impact of those matters on the Bank's financial position and equity which it anticipates to be material.

On the operations side, Bank Audi has taken rapid action to navigate the volatility across its markets of operations while factoring in frequent and wide-ranging regulatory developments. The main objectives of the Bank have been to support clients' business continuity while ensuring adequate portfolio quality. Bank Audi has strived to provide banking support to its Corporate and Commercial Banking clients to ensure business continuity, and proactively deleverage the corporate and commercial portfolio, in line with the economic slowdowns witnessed across the market of presence while ensuring proper portfolio quality. The Bank also leveraged its strong digital leadership position across its entities to accelerate customer alternative delivery channel engagement. In this respect, all entities worked on three main COVID-19 management fronts: (1) providing sufficient branch working hours while adhering to top level hygiene and safety precaution protocols; (2) expanding digitisation by encouraging and supporting customers to use alternative delivery channels to avoid physical presence at branches; and (3) optimising back office working capacity while providing remote working setup for employees.

As a result, customers' banking needs were promptly attended for in an uninterrupted manner through the Bank's fully integrated 24/7 Contact Center and ADCs (i.e. ATMs, Interactive Teller Machines [ITMs], Mobile & Online Banking). Contact Center agents not only answered all clients' inquiries efficiently, but also contacted back all unanswered calls that reached in total 7,000 per day at its peak, and executed specific banking operations. Our teams introduced new services, increased limits, and replenished ATMs around the clock, while NOVO agents digitally performed several on-site transactions such as debit card issuance and delivery, sub-account opening for companies to transfer employees' salaries, cash transactions, emergency money transfers, salary payments for retired individuals, as well as credit card replacement and renewal. The somewhat unseen value of the crisis is that the events ensured a smooth migration to ADCs and directed customers to self-service platforms.

Our key priorities focus on the provision of a best-in class service to our customers, in particular our core relationships, while supporting our risk profile and capital buffers to set the stage for renewed growth as soon as economic conditions start to improve.

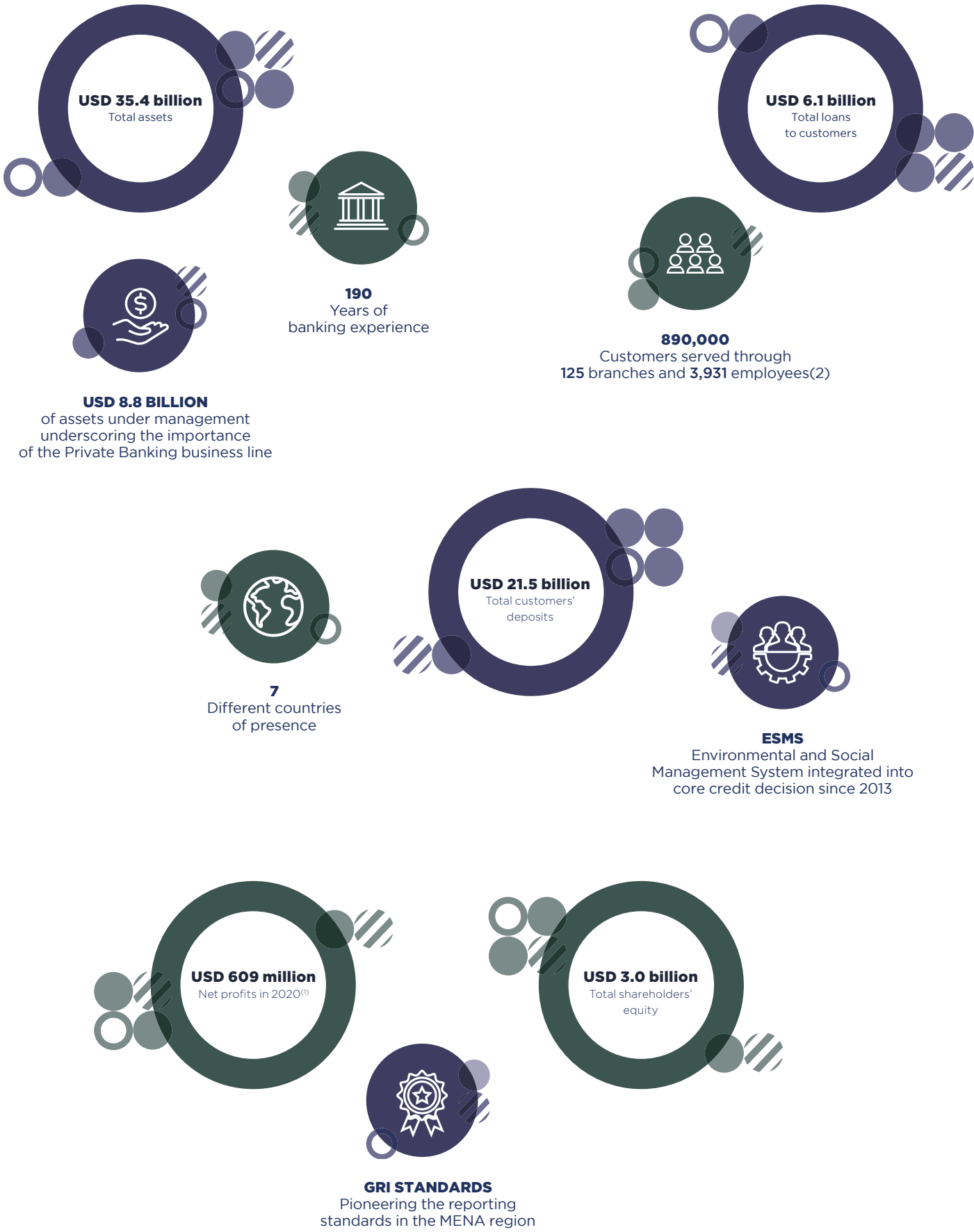
The past year has been uniquely confronting for the customers and communities we serve, dealing with disruptions unparalleled in most of our lifetimes, which prompted organisations like Bank Audi to review their business model. Priority focus was given, more than ever, to improving governance, accountability and culture. We are making sustainable progress by working towards setting in place new and right foundations. The road ahead appears to be long and fraught with bumps, but we remain confident in our ability to weather this storm and achieve the best possible outcome given the circumstances.

In closing and on behalf of the Board of Directors, we would like to thank our customers for their continuous patience and understanding, our employees for their exemplary dedication, and our shareholders for their permanent support. Stay healthy and safe.

Samir N. Hanna
Chairman and Group CEO



BANK AUDI AT A GLANCE



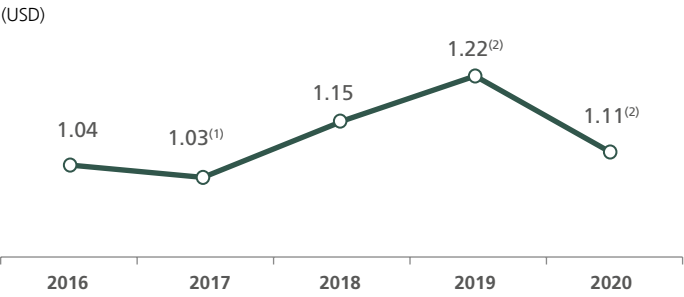
⁽¹⁾ Adjusted to the one-off flows from the outset of the financial crisis in Lebanon.
⁽²⁾ Excluding entities held for sale.

MAIN FINANCIAL INDICATORS 2020

	2016	2017	2018	2019	2020	CAGR 16-20
Assets	44,267	43,752	47,201 ⁽³⁾	39,535	35,431	-5.41%
Loans to customers	17,215	16,294	13,267	10,350	6,136	-22.73%
Customers' deposits	35,955	33,451	31,956	29,594	21,528	-12.03%
Shareholders' equity	3,698	4,188	3,886	2,970	2,951	-5.49%
Net earnings	470	559	501	-602	-145	-
Number of branches	201	203	201	213	125 ⁽⁴⁾	-11.20%
Number of staff	7,017	6,541	6,306	6,288	3,931 ⁽⁴⁾	-13.49%
Placements and loan quality						
Placements in Central Bank and banks ⁽¹⁾ /Deposits	71.26%	77.31%	100.44%	89.44%	97.42%	
Loans to deposits	47.88%	48.71%	41.52%	34.97%	28.50%	
Credit-impaired/Gross loans ⁽²⁾	2.69%	3.88%	5.52%	13.12%	15.31%	
Loan loss provisions/Credit-impaired (including allowance for ECL Stages 1 & 2)	149.29%	116.36%	102.82%	85.28%	94.46%	
Loan loss provisions/Credit-impaired (including real guarantees and allowance for ECL Stages 1 & 2)	186.18%	167.58%	146.72%	145.05%	158.41%	
Net credit-impaired/Equity	4.91%	7.15%	7.40%	19.98%	16.65%	
Allowance for ECL Stages 1 & 2/Net loans	2.43%	2.50%	2.33%	3.56%	7.02%	
Capital adequacy						
Equity/Assets	8.35%	9.57%	8.23%	7.51%	8.33%	
Common equity Tier 1 ratio	9.09%	10.51%	11.37%	6.61%	9.36%	
Capital adequacy ratio	14.78%	16.93%	18.91%	11.33%	13.12%	
Profitability						
Cost to income	46.95%	51.18%	46.27%	45.72%	44.22%	
ROAA	1.10%	1.06%	1.12%	-	-	
ROACE	14.76%	13.41%	14.00%	-	-	

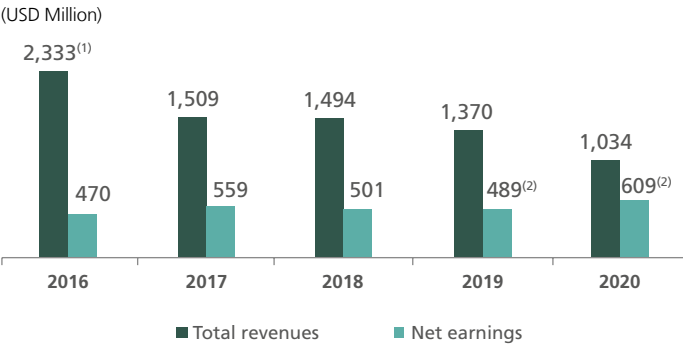
⁽¹⁾ Including CDs.
⁽²⁾ After adoption of IFRS 9.
⁽³⁾ Consolidated assets of Bank Audi would have reached USD 42.3 billion as at end-December 2018, after netting for comparison purposes.
⁽⁴⁾ Excluding entities held for sale.

COMMON EARNINGS PER SHARE



⁽¹⁾ Excluding net profits from discontinued operations.
⁽²⁾ Adjusted to the one-off flows from the outset of the financial crisis in Lebanon.

REVENUES & NET EARNINGS



⁽¹⁾ USD 1,477 million excluding non recurrent revenues related to exchange transactions with the Central Bank of Lebanon.
⁽²⁾ Adjusted to the one-off flows from the outset of the financial crisis in Lebanon.

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01

CORPORATE GOVERNANCE

1.0. | CORPORATE GOVERNANCE FRAMEWORK

INTRODUCTION

The Board of Directors of Bank Audi aims at achieving the Group’s long-term success through the implementation of Governance practices that promote continuity, consistency, and effectiveness in the way the Board operates and governs the Bank.

In 2020, and in addition to its role of policy setting and of providing strategic guidance, the Board has paid a particular attention to prudent and effective controls, notably in consideration of the heightened risks resulting from the fiscal and monetary crisis that has unfolded since the last quarter of 2019. Despite the impact of the said crisis on the Bank, and on all other banks and market players, and despite the exacerbating effect of the COVID-19 pandemic that broke out in 2020, and the

accompanying operational and sanitary measures, the Bank was able to minimise interruptions and to continue its operations in a safe and sound manner, with integrity and in compliance with applicable laws and regulations.

The Board is thus satisfied that, during the period under review, it fully discharged all its responsibilities, as mapped in its yearly rolling agenda, and acted on the recommendations of its committees in a way to meet its obligations towards its shareholders and all other stakeholders. The Board is also satisfied that the Bank’s Governance framework conforms to applicable directives and guidelines, and is adapted to the Bank’s needs and to the high expectations of its stakeholders.

GOVERNANCE FRAMEWORK

Bank Audi is governed by a Board of Directors consisting of up to 12 members (currently 9) elected by the General Assembly of shareholders for terms not exceeding 3 years. The responsibility of the Board is to ensure strategic direction, management supervision and adequate control of the company, with the ultimate goal of increasing the long-term value of the Bank.

Bank Audi’s Governance framework and that of its major banking subsidiaries encompass a number of policies, charters, and terms of reference that shape the Group’s Governance framework over a wide range of issues including risk supervision, compliance, AML/CFT, audit, remuneration, evaluation, succession planning, ethics and conduct, budgeting, and capital management. Clear lines of responsibility and accountability are in place throughout the organisation with a continuous chain of supervision for the Group as a whole, including effective channels of communication of the Group Executive Committee’s guidance and core group strategy. Strategic objectives setting corporate values and promoting high standards of conduct have been established and widely communicated throughout the Group, providing appropriate incentives to ensure professional behaviour.

The Bank’s Corporate Governance Guidelines are accessible on the Bank’s website at bankaudigroup.com

The Board is supported in carrying out its duties by the Audit Committee, the Risk Committee, the Remuneration Committee, the Compliance/ AML/CFT Board Committee, the Corporate Governance and Nomination Committee, and the Executive Committee.

- The mission of the Group Audit Committee is to assist the Board in fulfilling its oversight responsibilities as regards:
(i) The adequacy of accounting and financial reporting policies; (ii) the integrity of the financial statements and the reliability of disclosures; (iii) the appointment, remuneration, qualifications, independence and effectiveness of the external auditors; and (iv) the independence and effectiveness of the internal audit function .
- The mission of the Group Risk Committee is to assist the Board in discharging its risk-related responsibilities. The Committee is expected to:
(i) consider and recommend the Group’s risk policies and risk appetite to the Board; (ii) monitor the Group’s risk profile for all types of risks; and (iii) oversee the management framework of the aforementioned risks, and assess its effectiveness.
- The mission of the Remuneration Committee is to assist the Board in maintaining a set of values and incentives for Group executives and employees that are focused on performance and promote integrity, fairness, loyalty and meritocracy.
- The mission of the Compliance/AML/CFT Board Committee is to assist the Board of Directors in its functions and supervisory role with respect to:
(i) fighting money laundering and terrorist financing and understanding the related risks, and assisting it with making the appropriate decisions in this regard; (ii) protecting the Bank from other compliance-related risks and, more generally, overseeing the Bank’s compliance with applicable laws, policies and regulations.
- The mission of the Corporate Governance and Nomination Committee is to assist the Board in maintaining an effective institutional and Corporate Governance framework for the Group, an optimal Board composition, and effective Board processes and structure.
- The mission of the Group Executive Committee is to develop and implement business policies for the Bank and to issue guidance for the Group within the strategy approved by the Board. The Group Executive Committee also supports the Group Chief Executive Officer in the day-to-day running of the Bank and in guiding the Group.

(1) It is not the duty of the Audit Committee to plan or to conduct audits or make specific determinations that the Bank’s statements and disclosures are complete and accurate, nor is it its duty to assure compliance with laws, regulations and the Bank’s Code of Ethics and Conduct. These are the responsibilities of Management and/or of external auditors.

2.0. | SHAREHOLDING STRUCTURE

The following table sets out the composition of the holders of common shares as at 31 December 2020:

Shareholders/Groups of Shareholders	Country (Ultimate Economic Ownership)	Percentage Ownership ⁽¹⁾ (%)
FRH Investment Holding sal	Lebanon	12.25
Sheikh Dheyab Bin Zayed Bin Sultan Al Nahyan	United Arab Emirates	7.96
Al Hobayb family ⁽²⁾	Kingdom of Saudi Arabia	5.76
Audi family ⁽²⁾	Lebanon	5.01
Family of late Sheikha Suad Hamad Al Saleh Al Homaizi	Kuwait	4.42
Akig Investment Holdings ltd	Iraq	4.26
Phoenicia Enterprises sa	Lebanon	3.37
Al Sabah family ⁽²⁾	Kuwait	3.21
European Bank for Reconstruction and Development – EBRD	—	2.90
Ali Ghassan El Merhebi family	Lebanon	2.78
Kel Group	Lebanon	2.49
Mohammed Bin Dhoheyan Bin Abdul Aziz Al Dhoheyan	Kingdom of Saudi Arabia	2.37
Investment & Business Holding sal	Lebanon	2.33
Imad Ibrahim Itani	Lebanon	1.88
International Finance Corporation – IFC	—	1.70
Executives and employees ⁽³⁾	Lebanon	2.04
Others	—	13.72
Global Depositary Receipts (“GDRs”) ⁽⁴⁾	—	21.55
Total shareholding ⁽⁵⁾	—	100.00

⁽¹⁾ Percentage ownership figures represent common shares owned by the named shareholders and are expressed as a percentage of the total number of common shares issued and outstanding.

⁽²⁾ The Audi family, Al Sabah family and Al Hobayb family include the following members of the Board: (i) Marc Jean Audi and Sherine Raymond Audi, (ii) Mariam Nasser Sabah Al Nasser Al Sabah, and (iii) Abdullah Al Hobayb, respectively.

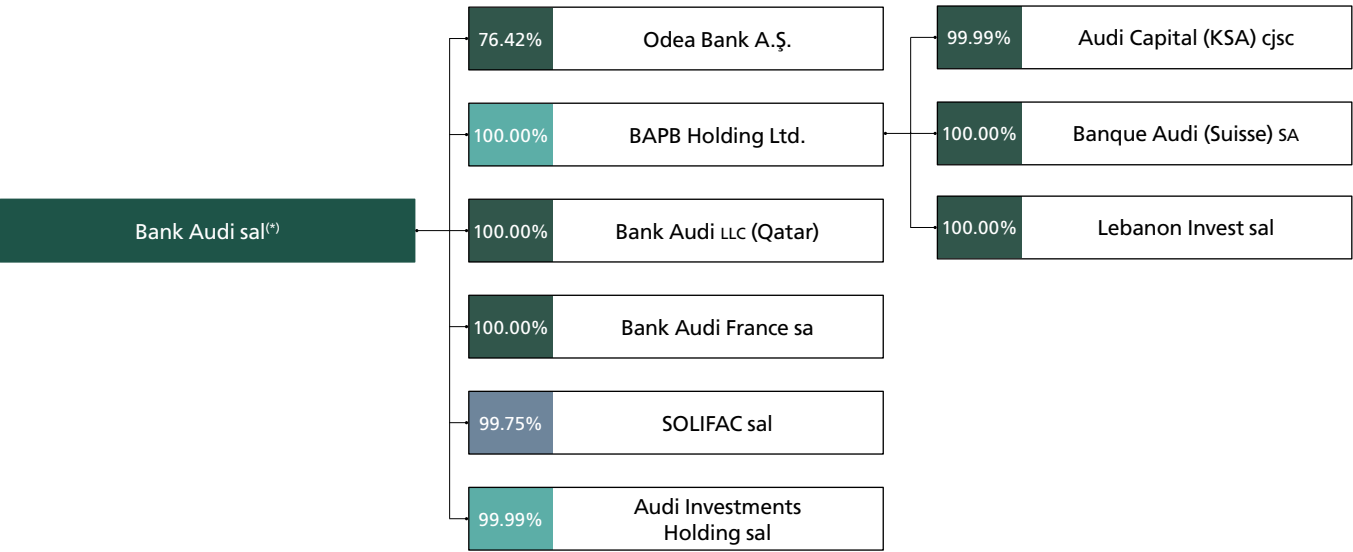
⁽³⁾ Excluding members of the Audi family accounted for in a separate row above.

⁽⁴⁾ GDRs represent common shares held by “The Bank of New York Mellon” as a holder of record in its capacity as depositary under the Bank’s GDR Program. In addition to the ownership of common shares mentioned above, 8.47% of the Bank’s common shares are held through GDRs by each of **FRH Investment Holding sal (including by its controlling shareholder), Sheikh Dheyab Bin Zayed Bin Sultan Al Nahyan, the Al Hobayb family, the Audi family, the family of late Sheikha Suad H. Al Homaizi, and Mohammed Bin Dhoheyan Bin Abdul Aziz Al Dhoheyan** (respectively 1.56%, 2.13%,1.66%, 0.62%, 1.23% and 1.27%). Information on GDR ownership is based on self-declarations (pursuant to applicable Lebanese regulations) as GDR ownership is otherwise anonymous to Bank Audi.

⁽⁵⁾ As at the date hereof, the total number of common shares was 588,538,215. The Bank (and its affiliates) is the custodian of shares and/or GDRs representing 77.29% of the Bank’s common shares.

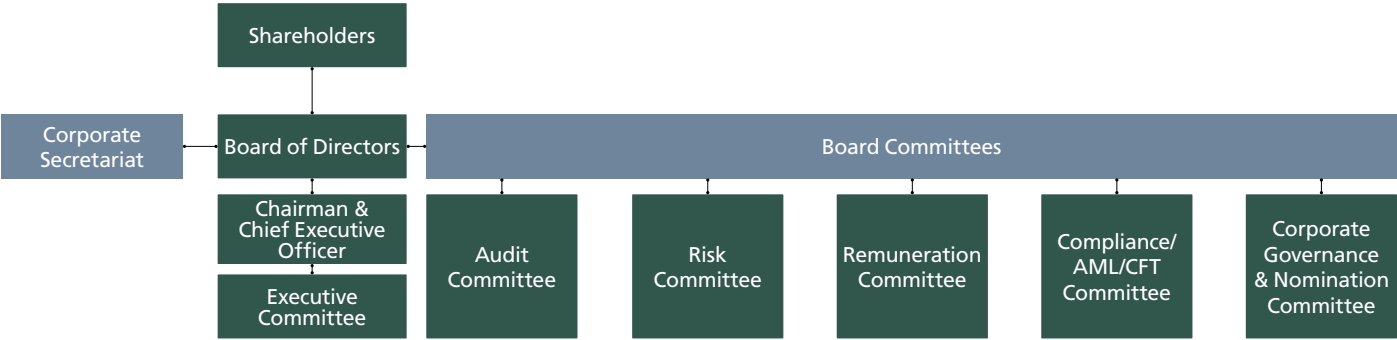
3.0. | CORPORATE STRUCTURE

The major subsidiaries and branches abroad of Bank Audi sal as at 31/12/2020 are:



- Banking
- Holding
- Factoring

4.0. | GROUP HIGH LEVEL CHART



Business & Operations	Standing Management Committees	Support and Control
Corporate Banking	• Executive Committee	Compliance
Private Banking	• Asset Liability Committee	Credit
Retail Banking	• IFRS 9 Committee	Finance
Financial Institutions	• Investment Committee	Internal Audit
Capital Markets	• Credit Committee	Human Resources
Operations	• Anti-money Laundering Committee	Legal
Information Technology	• Human Resources Committee	Research
Marketing & Communications	• Disclosure Committee	
	• Corporate Social Responsibility Committee	Risk Management

(*) During 2021, the Bank sold Bank Audi sae (Egypt) and all the business of Jordan and Iraq Branches.
Percentage ownership represents the economic ownership of the Bank with direct and/or indirect ownership through subsidiaries.

5.0. | BOARD OF DIRECTORS

H.E. Mr. Raymond W. AUDI serves as Honorary Chairman since his resignation in April 2017.

COMPOSITION OF THE BOARD OF DIRECTORS

The current members of the Board of Directors were elected by a resolution of the Ordinary General Assembly of shareholders held on 12 April 2019 for a three year term expiring on the date of the annual Ordinary General Assembly meeting (expected to be held in April 2022) that will examine the accounts and activity of the year 2021.

The names of Directors⁽²⁾ serving at the date of this report are the following:

MEMBERS	Independent (as per the Bank's Corporate Governance Guidelines ⁽³⁾)	Member of the Group Audit Committee	Member of the Board Group Risk Committee	Member of the Remuneration Committee	Member of the Compliance/ AML/ CFT Board Committee	Member of the Corporate Governance and Nomination Committee
Mr. Samir N. HANNA <i>(Chairman)</i>						Chair •
Dr. Marwan M. GHANDOUR <i>(Vice-Chairman)</i>	•	Chair •		Chair •		•
Mr. Marc J. AUDI <i>(Vice-Chairman)</i>			•		•	•
Sheikha Mariam N. AL SABAH	•					
Dr. Imad I. ITANI					•	
Mr. Abdullah I. AL HOBAYB	•	•		•		
Dr. Khalil M. BITAR	•	•	Chair •	•		
Ms. Sherine R. AUDI			•		•	
Mr. Carlos A. OBEID	•				Chair •	
SECRETARY OF THE BOARD						
Dr. Farid F. LAHOUD <i>(Group Corporate Secretary)</i>						

⁽²⁾ Listed according to their dates of appointment (beyond the Vice-Chairmen).

⁽³⁾ Definition of "Director independence" as per the Bank's Governance Guidelines (summary):
"In order to be considered independent Director by the Board, a Director should have no relationship with the Bank that would interfere with the exercise of independent judgment in carrying out responsibilities as a Director. Such a relationship should be assumed to exist when a Director (him/herself or in conjunction with affiliates):

- is occupying, or has recently occupied an executive function in the Bank or the Group;
- is providing, or has recently provided advisory services to the Executive Management;
- is a major shareholder (i.e. owns, directly or indirectly, more than 5% of outstanding Audi common stock), or is a relative of a major shareholder;
- has, or has recently had a business relationship with any of the Senior Executives or with a major shareholder;
- is the beneficiary of credit facilities granted by the Bank;
- is a significant client or supplier of the Bank;
- has been, over the 3 years preceding his appointment, a partner or an employee of the Bank's external auditor;
- is a partner with the Bank in any material joint venture.

In addition to the above, the Board of Directors is satisfied with the ability of the independent Directors to exercise sound judgment after fair consideration of all relevant information and views without undue influence from Management or inappropriate outside interests."

FREQUENCY OF MEETINGS

In 2020, the Board of Directors held 9 meetings, the Group Audit Committee held 5 meetings, the Group Risk Committee held 5 meetings, the Remuneration Committee held 4 meetings, the Corporate Governance and Nomination Committee held 1 meeting, and the Compliance/AML/CFT Board Committee held 2 meetings.

CHANGES TO THE BOARD OF DIRECTORS DURING THE YEAR 2020

During the year the 2020, no changes were brought to the composition of the Board of Directors.

GROUP SHARIA' SUPERVISORY BOARD

Dr. Mohamed A. ELGARI (Chair)
Sheikh Nizam M. YAQOOBI
Dr. Khaled R. AL FAKIH

LEGAL ADVISORS

Cortbaoui & Kanaan
Dr. Mohamed A. ELGARI (Chair)
BDO, Semaan, Gholam & Co.
Ernst & Young p.c.c.

6.0. | BIOGRAPHY OF THE HONORARY CHAIRMAN

RAYMOND W. AUDI



RAYMOND W. AUDI
HONORARY CHAIRMAN OF THE BOARD
Age: 88 – Lebanon

Raymond Audi acts as Honorary Chairman of the Board after having decided to stand down from his position as Chairman – General Manager and retire from his corporate responsibilities in order to devote more time to his personal life.

He started his banking career in 1962 when, together with his brothers and with prominent Kuwaiti businessmen, he founded Bank Audi, building on a successful long standing family business. He served as Chairman of the Board of Directors and General Manager from 1998 to 2017 (stepping down temporarily when he served as Minister of the Displaced in the Lebanese government, in line with the sound Governance principles he always upheld). Raymond Audi has played an instrumental role in leading Bank Audi through an extraordinary journey over more than 50 years, relinquishing his chairmanship after having expressed his great satisfaction at the status of the Bank, as well as his confidence in its future.

The Board of Directors celebrated Raymond Audi’s career, expressed its gratitude for his unwavering dedication and leadership, and appointed him Honorary Chairman in April 2017. In addition to his role at Bank Audi, Raymond Audi served as President of the Association of Banks in Lebanon in 1994, and as Minister of the Displaced in the Lebanese government in 2008.

He is the recipient of several honours and awards, including, in July 2007, an Honorary Doctorate in Humane Letters from the Lebanese American University, and in October 2018, a “Doctorat Honoris Causa” from Université Saint-Joseph.

MARWAN M. GHANDOUR



VICE-CHAIRMAN OF THE BOARD
Age: 77 – Lebanon
Director since March 2000
Term expires at the 2022 annual General Assembly of shareholders

- Independent Non-executive Director
- Chairman of the Group Audit Committee
- Chairman of the Remuneration Committee
- Member of the Corporate Governance and Nomination Committee

Marwan Ghandour is an independent member of the Board of Directors since March 2000 and the Vice-Chairman of the Board of Directors since December 2009.

Marwan Ghandour is a previous Vice-Governor of the Central Bank of Lebanon. He held this position between January 1990 and August 1993, with primary responsibilities in the area of monetary policy. During this period, he was also a member of the Higher Banking Commission and various other government committees involved in economic policy. In this capacity, he liaised with renowned international institutions such as the International Monetary Fund (IMF), the World Bank and the Bank for International Settlements (BIS). From 1995 until July 2011, Marwan Ghandour served as Chairman and General Manager of Lebanon Invest sal, a leading financial services group in the region whose holding company merged with Bank Audi in 2000.

Since 2000, Marwan Ghandour has served as member or Chair of the Boards of a number of subsidiaries of the Bank Audi Group including (i) member of the Board of Directors of Odea Bank A.Ş., Bank Audi’s subsidiary in Turkey from 2012 until 2020 (Vice-Chairman until 31 December 2017), (ii) member of the Board of Directors of Bank Audi sae (Egypt) from 2006 until 2018, (iii) Chairman of the Board of Directors of Banque Audi (Suisse) SA from 2011 until 2015, and (iv) Chairman of the Board of Directors of Audi Investment Bank sal from 2005 until 2011.

Marwan Ghandour holds a PhD in Economics (Econometrics) from the University of Illinois (Post-doctorate research at Stanford University).

7.0. | BIOGRAPHIES OF BOARD MEMBERS

SAMIR N. HANNA



CHAIRMAN – GENERAL MANAGER
GROUP CHIEF EXECUTIVE OFFICER
Age: 76 – Lebanon
Director since August 1990
Term expires at the 2022 annual General Assembly of shareholders

- Executive Director
- Chairman of the Corporate Governance and Nomination Committee

Samir Hanna is the Chairman and Chief Executive Officer of the Bank Audi Group. He joined Bank Audi in January 1963 and held several managerial and executive positions across various departments of the Bank. He was appointed General Manager of Bank Audi in 1986 and member of its Board of Directors in 1990. In the early 1990s, he initiated and managed the restructuring and expansion strategy of Bank Audi, transforming it into a strong banking group offering universal banking products and services including Corporate, Commercial, Retail, Investment, and Private Banking. He was elected Chairman of the Board of Bank Audi sal, succeeding Mr. Raymond Audi, on 10 April 2017.

Samir Hanna is also a member of the Boards of Directors of Banque Audi (Suisse) and of Odea Bank A.Ş., Bank Audi’s subsidiary in Turkey (and has previously served as Chairman of its Board since its establishment in 2012 and until November 2020).

As Group Chief Executive Officer, he heads all aspects of the Bank’s Executive Management.

MARC J. AUDI



VICE-CHAIRMAN OF THE BOARD
Age: 63 – Lebanon
Director since March 1996
Term expires at the 2022 annual General Assembly of shareholders

- Executive Director
- Member of the Board Group Risk Committee
- Member of the Corporate Governance and Nomination Committee
- Member of the Compliance/AML/CFT Board Committee

Marc Audi is the Vice-Chairman of the Board since July 2019. He serves as member of the Board of Directors since 1996, has been a General Manager since 2004, and has served as Lebanon Country Manager of the Bank Audi Group until June 2020.

Marc Audi started his banking career in 1981. He held several executive positions within the Bank Audi Group, in a number of countries including France, the USA (California), Switzerland and Lebanon. Throughout his career, he held executive responsibilities at group level, in Commercial Lending, in Capital Markets and in Private Banking (notably serving as General Manager of Banque Audi (Suisse) SA, the Private Banking arm of the Group, until 2005).

Marc Audi currently serves as member of the Board of Directors of Banque Audi (Suisse) SA and of several other affiliates of the Bank Audi Group.

Marc Audi holds a Master’s of Business Administration from the University of Paris IX – Dauphine.

MARIAM N. AL SABAH



BOARD MEMBER
Age: 72 – Kuwait
Director since March 2001
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director

Sheikha Mariam Al Sabah is the daughter of late Sheikh Nasser Sabah Al Nasser Al Sabah and the widow of late Sheikh Ali Sabah Al Salem Al Sabah, who was the son of the former Prince of Kuwait and who held several ministerial positions in Kuwait, notably the Ministry of Interior. Sheikh Nasser Al Sabah was one of the founders of Bank Audi.

Sheikha Mariam Al Sabah is a member of the Board of Directors of several Kuwaiti companies. She is a member of the Board of Directors of Bank Audi since March 2001.

ABDULLAH I. AL HOBAYB



BOARD MEMBER
Age: 78 – Saudi Arabia
Director since April 2010
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director
- Member of the Group Audit Committee
- Member of the Remuneration Committee

Abdullah Al Hobayb is an independent member of the Board of Directors since 2010. He is the Chairman of several leading companies in their respective fields in Saudi Arabia, comprising ABB Saudi Arabia, Ink Products Company Ltd, Philips Lighting Saudi Arabia, Manufacturers Trading Company Ltd, Arabian Co. For Electrical & Mechanical Works and Electrical Materials Center Co. Ltd.

He is also the Chairman of Audi Capital (KSA) (an Investment Banking subsidiary of Bank Audi, incorporated in the Kingdom of Saudi Arabia) and was, until July 2014, a member of the Board of Directors of Bank Audi sae in Egypt and of Odea Bank A.Ş., Bank Audi’s subsidiary in Turkey.

Abdullah Al Hobayb holds a Master’s degree in Electrical Engineering from Karlsruhe University in Germany.

IMAD I. ITANI



BOARD MEMBER
Age: 59 – Lebanon
Director since June 2002
Term expires at the 2022 annual General Assembly of shareholders
- Non-executive Director
- Member of the Compliance/AML/CFT Board Committee

Imad Itani serves as a member of the Board of Directors since 2002. He started his banking career at Bank Audi in 1997, after having worked for a few years in Corporate Finance for major energy companies in Canada.

Imad Itani formed and headed the team that successfully launched the Bank’s Retail business line, today a major pillar of the Bank’s innovative and leading position. In 2002, he was appointed Deputy General Manager and Member of the Board of Directors. In 2004, he was appointed General Manager – Group Head of Retail Banking of the Bank Audi Group and Head of Group Islamic Banking. In July 2020, Imad Itani resigned from his executive role and now remains a non-executive member of the Board of Directors.

He currently serves as Chairman of the Board of Directors (and Chairman of the Audit Committee and Remuneration Committee) of Odea Bank A.Ş., Bank Audi’s subsidiary in Turkey. He is also a member of the Boards of Directors (and Chairman of the Audit Committee) of Bank Audi sae, Bank Audi’s subsidiary in Egypt. He has also served as Chairman of the Board of Audi Investment Bank sal until its merger with Bank Audi sal in December 2020.

Imad Itani holds a PhD in Economics from the University of Chicago and is a former lecturer in Economics and Finance to graduate students at the American University of Beirut.

KHALIL M. BITAR



BOARD MEMBER
Age: 78 – Lebanon
Director since April 2010
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director
- Chairman of the Board Group Risk Committee
- Member of the Remuneration Committee
- Member of the Group Audit Committee

Khalil Bitar is an independent member of the Board of Directors since2010. He is a current Professor of Physics and a former Dean of the Faculty of Arts and Sciences of the American University of Beirut (AUB). He held this last position from 1997 until 2009, playing an instrumental role in advocating AUB’s strengths and regional position as the premier centre for higher education, and in re-establishing its PhD programs.

Throughout his career, he held several academic and administrative positions, including Associate Director of the Supercomputer Computations Research Institute – Florida State University (between 1994 and 1997) and visiting professor at leading academic institutes in Europe and North America (including the European Organisation for Nuclear Research in Geneva, the International Centre for Theoretical Physics in Italy, The Institute for Advanced Study in New Jersey, the Fermi National Accelerator Laboratory (Fermilab) in Illinois, the University of Illinois, Brookhaven National Lab. in New York, the Max Planck Institute in Munich, and the Rockefeller University in New York). He also served two mandates as member of The Institute for Advanced Study in Princeton, New Jersey, between 1968 and 1972.

Khalil Bitar has also served as (i) member of the Board of Directors of Audi Private Bank sal and the Chairman of its Risk Committee, and (ii) member of the Board of Directors of Audi Investment Bank sal and Chairman of its Risk Committee from March 2012 until November 2013, and as advisor to its Board for Risk Committee matters until the merger of both entities with Bank Audi sal in December 2020.

Khalil Bitar holds a Bachelor of Science degree in Physics from the American University of Beirut, a Master’s of Science degree in Physics, and a PhD in Theoretical Physics from Yale University in the United States.

SHERINE R. AUDI



BOARD MEMBER
Age: 60 – Lebanon
Director since April 2017
Term expires at the 2022 annual General Assembly of shareholders
- Executive Director
- Member of the Compliance/AML/CFT Board Committee

Sherine Audi is the General Manager of Bank Audi France sa (“BAF”), the French subsidiary of the Bank. She started her banking career in 1980 at BAF, now a fully owned subsidiary of Bank Audi sal.

She held several positions there, including in credit, business development, operations and administration, while gradually climbing the corporate ladder. She was appointed Assistant General Manager in 1995, then Executive Director in 2000, and Director – General Manager since 2010. In this capacity, she is now in charge of the development and implementation of the strategy of BAF, as approved by the Board. She heads all the executive aspects of BAF’s activity and drives its strategic transformations (including technological and regulatory ones) as required by the current market rules and practices. She also acts as the representative of BAF towards the French banking authorities and professional organisations.

Sherine Audi holds a diploma of Certified Director (by Sciences Po. Paris, jointly with the French Institute of Directors).

CARLOS A. OBEID



BOARD MEMBER
Age: 56 – Lebanon
Director since April 2017
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director
- Chairman of the Compliance/AML/CFT Board Committee

Carlos Obeid is the Group Chief Financial Officer of Mubadala Investment Company. In this position, he is responsible for the provision of specialist advisory and transactional services across the organisation and its related companies (Project and Corporate Finance, Treasury, Financial Planning and Business Performance).

He has an extensive experience including in (i) strategic planning and valuation assessment, (ii) automation of finance systems, and (iii) credit rating processes and reviews, having raised over USD 20 billion in corporate bonds, over USD 2.5 billion in project bonds, and over USD 12 billion in project finance). He played a leading role in capital deployments totaling over USD 55 billion. He has also been responsible for strategic steering and guidance, for senior leadership recruitment and assessment, and, where applicable, for the establishment, supervision, restructuring or realignment of listed companies (including ALDAR, Waha Capital, ADCB), joint ventures (including Mubadala GE Capital, Capitala, Viceroy Hotel Group) and wholly owned entities (Cleveland Clinic Abu Dhabi, Yahsat, Global Foundries, Masdar).

Carlos Obeid holds an MBA degree from INSEAD (1991), and a Bachelor of Electrical Engineering from AUB (1986).

8.0. | REMUNERATION POLICY AND PRACTICES

1. The objective of the Policy is to establish coherent and transparent Compensation and Benefits practices in the Bank and the Group, that are consistent with the Bank’s culture, business, long-term objectives, risk strategy, performance, and control environment, as well as with legal and regulatory requirements.

2. It is Bank Audi’s policy to provide all employees of the Group with a comprehensive and competitive compensation package that is commensurate with each employee’s position, grade and performance. Such performance is assessed on the following 3 performance criteria: key job responsibilities, SMART business goals, and behavioural competencies. Individual compensations are also linked to the achievement of objectives and are aligned with prudent risk taking. The compensation and benefits of control functions are determined in a way that preserves their objectivity and independence.

3. The aggregate consolidated amount of compensation and benefits paid by the Bank is included in the annual budget approved by the Board and is set in a way not to affect the Group’s medium and long-term capacity to sustain such levels of compensation nor its financial position or its interests.
4. Core Compensation and Benefits include basic salary and performance-based bonus (in addition to a number of ancillary benefits including individual and family medical coverage, education allowances, and others).

5. There is currently no outstanding stock-related compensation. And there are no compensation arrangements encompassing claw backs or deferrals of payments, save for matters resulting from applicable laws and regulations. Amounts of compensation paid annually are disclosed in accordance with the International Financial Reporting Standards and with the provisions of Article 158 of the Lebanese Code of Commerce.
- As reported in the Bank’s financial statements, salaries, bonuses, attendance fees and other short-term benefits awarded to key Management personnel (as defined in Note 50 accompanying the financial statements) during the year 2020, amounted to LBP 16,898 million, in addition to post-employment benefits aggregating LBP 235 million. Provision for end of service benefits of key Management personnel amounted to LBP 1,531 million as of 31 December 2020 (2019: LBP 2,819 million).

02

**MANAGEMENT
DISCUSSION
& ANALYSIS**

1.0. | OVERVIEW OF BANK AUDI sal

Bank Audi sal (“Bank Audi”) is a leading Lebanese banking group with a universal banking profile. Founded in 1830 in Sidon, Southern Lebanon, the Bank was incorporated in its present form in 1962 as a private joint stock company with limited liability (“société anonyme libanaise”). Bank Audi is registered in the Beirut Commercial Registry under number 11347 and in the Lebanese list of banks under number 56. The Bank is licensed by the Central Bank of Lebanon. The Central Bank of Lebanon is the lead supervisor of Bank Audi and its subsidiaries. Bank Audi’s head office and registered address is Bank Audi Plaza, Omar Daouk Street, Bab Idriss, P.O. Box: 11-2560, Beirut, Lebanon.

Bank Audi offers universal banking products and services covering Corporate, Commercial, Individual and Private Banking services to a diversified client base, mainly in the MENA region. In addition to its historic presence in Lebanon, Switzerland and France, the Bank has continuing operations in Saudi Arabia, Qatar, Abu Dhabi (through a representative office) and Turkey. In January 2021, the Bank has signed definitive agreements for the sale of its operation in Egypt. In March 2021, The Bank completed the sale of its branch networks in Iraq and Jordan. Excluding the latter discontinued operations, the Group serves 0.9 million customers through a talent pool of 3,931 staff and a network of 125 branches and 494 advanced self-service machines (ITMs, ATMs and “NOVO e-branch” (fully electronic branches allowing the Bank to offer, in addition to transactional activities, advisory to clients enabling them to apply for loans and services outside the Bank’s normal working hours)), and digital channels (Online and Mobile Banking).

The initial shareholders of the Bank were members of the Audi family, together with Kuwaiti investors. Today, the shareholder base comprises more than 1,500 holders of common shares and Global Depositary Receipts (representing common shares), including individual investors, institutional investors and two supranational agencies. In September 2014, the International Finance Corporation (“IFC”), a member of the World Bank Group, acquired common shares representing approximately 2.50% of the total outstanding common shares of the Bank at the time. In March 2018, the European Bank for Reconstruction and Development acquired common shares representing approximately 2.51% of the total outstanding common shares of the Bank, which is its first ever investment in Lebanon and its first equity investment in a banking institution in the southern and eastern Mediterranean region. The Global Depositary Receipts are listed on the Beirut Stock Exchange (the “BSE”) (Ticker: AUSR) and the Bank’s common shares are listed on the BSE (Ticker: Audi. BY).

Terms such as “Bank Audi”, “the Bank” or “the Group” refer to Bank Audi sal and its consolidated subsidiaries. Terms such as : i) **Lebanese entities** consist of Bank Audi sal and other minor Lebanese entities excluding consolidation adjustments; ii) **Turkey** represents Odea Bank A.Ş.; iii) **Private Banking** entities consist of Banque Audi (Suisse), Audi Capital (KSA), and Bank Audi Private Bank Holding (Cyprus); and v) **Other entities** consist of Bank Audi France sa, Bank Audi LLC (Qatar) and other European and MENA entities.

In December 2020, Audi Investment Bank sal and Audi Private Bank sal were merged with Bank Audi sal. Additionally, in December 2020 as well, Bank Audi signed definitive agreements with Capital Bank of Jordan and

National Bank of Iraq – a subsidiary of Capital Bank – for the sale of Bank Audi sal – Jordan Branches and Bank Audi sal – Iraq Branches respectively. These transactions were completed in March 2021. In January 2021, Bank Audi entered into definitive agreements with First Abu Dhabi Bank for the sale of Bank Audi sae (Egypt). Completion of this transaction is expected to occur in the second quarter of 2021 the latest. In the following discussion, **discontinued operations** (assets held for sale in the financial position) refer to the financials of Bank Audi sal – Jordan Branches, Bank Audi sal – Iraq Branches, and Bank Audi sae (Egypt).

The discussion and analysis that follows covers the consolidated performance of Bank Audi in 2020, based on the audited consolidated financial statements of the Bank as at and for the fiscal years ended 31 December 2020 and 31 December 2019. The Bank’s consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and the general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission of Lebanon (the “Banking Control Commission” or “BCC”), and include the results of the Bank and its consolidated subsidiaries as listed in Note 45 to the 2020 Financial Statements. Ernst & Young p.c.c. and BDO, Semaan, Gholam & Co. have jointly audited the annual financial statements.

The severe economic and fiscal crisis hitting Lebanon with unprecedented impact for more than sixteen months now, coupled with a persisting absence of clear national fiscal and economic recovery plan, has and continues to create excessive uncertainties. The COVID-19 pandemic, the explosion of the Beirut port, as well as the prevailing deep recession, the multitude of exchange rates and hyperinflation, are adding up to the severity of the economic downturn, further increasing the uncertainties and volatility. Bank Audi continues to exert extended efforts to consolidate its financial position and reinforce its financial standing with the objective of setting a roadmap to address the requirements of BdL Basic Circular 154 and Intermediate Circular 567, and obtaining the regulatory approval on it. As of the date of this discussion, Bank Audi is unable to predict the reaction of the Central Bank of Lebanon on its roadmap, nor the impact it will have on these published figures.

The financial position of the Group does not reflect the adjustments that would be required by IFRS as a result of the government fallout, the deep recession, the currency crisis and the hyperinflation. Due to the high levels of uncertainties, Management is unable to estimate in a reasonable manner or within a reasonable timeframe the adverse impact of the aforementioned matters on the Bank’s financial position and equity which it anticipates to be material.

As per regulatory requirements, the Bank maintains its accounts in Lebanese Pounds (LBP). Nonetheless, all figures presented in the following MD&A are expressed in US Dollars (“USD”), unless specifically otherwise stated. The difficulty in accessing foreign currencies has led to the emergence of a parallel market to the official rate of 1,507.5 USD/LBP which deviates significantly from the latter. Also, the Central Bank of Lebanon introduced the Platform Rate in April 2020, standing at the date of this report at 3,900 USD/LBP, to be used only in specific

circumstances. For the purpose of this discussion, US Dollar amounts are translated from Lebanese Pounds at the closing of the official rate of exchange published by the Central Bank of Lebanon (1,507.5 as of each of 31 December 2019 and 2020) , in line with IAS 21 due to the lack of an alternative legal exchange mechanism. Consequently, the financial statements do not reflect the change of disclosures required by IAS 29 which applies for hyperinflationary economies since the existence of a wide range of FX rates prevailing on the market and the absence of forthcoming revamping of the official peg make it difficult to proceed with such adjustments, especially when it comes to the valuation of monetary assets and liabilities. References to foreign currency translation differences reflect the movement of functional currencies in the countries in which the Bank has a presence against the US Dollar.

Certain statements in the MD&A constitute “forward-looking statements”. These statements appear in a number of places in this document and include statements regarding the Bank’s intent, belief or current expectations or those of the Bank’s Management with respect to, among other things, the Bank’s results of operations, financial condition and future economic performance; its competitive position and the effect of such competition on its results of operations; trends affecting the Bank’s financial condition or results of operations; the Bank’s business plans, including those related to new products or services and anticipated customer demand for these products or services and potential acquisitions; the Bank’s growth and investment programs and related anticipated capital expenditure; the Bank’s intentions to contain costs, increase operating efficiency and promote best practices;

2.0. | STRATEGY

The Bank operates principally in Lebanon and accordingly, its financial condition, results of operations and business prospects are closely related to the overall political, social and economic situation in Lebanon, which, in turn, are tied to the political situation in the MENA region.

For over a year now, Lebanon has been facing a series of crises: economic, financial, banking, political and social, compounded by the COVID-19 pandemic and the explosion of the Beirut port on 4 August 2020 (the “Crisis”). As of the date of this report, visibility on actions to address this Crisis remains elusive. By common local and international consensus, the government of Lebanon needs to adopt and implement a credible and comprehensive macro-financial reform program to address, among others, the systemic failure of the financial and banking sectors caused by the Crisis. In the absence of such reform program, and in light of the prevailing market uncertainties, any financial projection related to the Bank’s future business model is extremely difficult to make. The resulting lack of visibility also prevents the Bank from making well-informed future plans regarding its wider business strategy.

In particular, Management wishes to draw attention to the following key points that carry significant uncertainties with potential material impact on the future financial position of the Bank:

- The impact of the valuation of assets and liabilities in foreign currencies is expected to be significant once the revamping of the peg is implemented by the Lebanese government, as seems highly likely.

the potential impact of regulatory actions on the Bank’s business, competitive position, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “is expected to”, “will”, “will continue”, “should”, “approximately”, “would be”, “seeks”, or “anticipates”, or similar expressions or comparable terminology, or the negatives thereof. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results. Many factors could affect the Bank’s actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. The Bank does not undertake to update any forward-looking statements made herein.

Lebanon’s economic and banking data are derived from the International Monetary Fund, the Central Bank of Lebanon, various Lebanese governmental entities and the Bank’s internal sources. The region’s economic and banking data are derived from the International Monetary Fund, the Economist Intelligence Unit, Bloomberg, the region’s central banks and the Bank’s internal sources.

This discussion and analysis starts with an overview of the Bank’s strategy, followed by a review of the operating environment and a comparative analysis of the Group’s financial conditions and results of operations for the periods ended 31 December 2020 and 31 December 2019. An overview of share information and dividend policy comes next, followed by risk management, resources deployed, Compliance and Corporate Social Responsibility.

- Loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities are recorded in the Bank’s financial statements based on BdL guidelines issued on February 2020. These loss allowances, set at very low levels, are widely considered to represent an insufficient reflection of the underlying risks of those assets. Should an adjustment become necessary, the impact is expected to be pervasive.
- As a result of the negative economic conditions and the deepening recession, the credit quality of the loan portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019, significantly raising the level of impaired credit. Should these economic conditions persist or deteriorate, this may further affect the loan portfolio by revealing additional future embedded losses.
- Potential restatement of published financial statements resulting from the use of a functional currency (LBP) related to a hyperinflationary economy as per IAS 29.
- Management has concerns about the effects that the above matters will have on the equity of the Group and the recapitalisation needs that will arise once the necessary adjustments are determined and recorded.

Given the new set of aforementioned unprecedented challenges stemming from the new operating environment in Lebanon, Management adopted a new vision and direction centered around (i) consolidating and de-risking the domestic franchise and operations, (ii) re-gearing its business model to support the economic recovery of the country, and (iii) de-risking foreign entities from Lebanon spillover effects.

In the short term, this new direction will focus primarily on:

Strengthening the foreign currency liquidity

– To create an important buffer allowing to absorb turbulences.

Reinforcing the capital base

– To maintain sufficient capital buffers over the minimum regulatory capital adequacy levels allowing the Group to support the management of potential non-performing exposures caused by the prevailing crisis.

Continuing with the deleveraging policy initiated 2 years ago and emphasising on the application of an enhanced risk monitoring and management

– To structurally enhance the quality of the Group’s balance sheet. In doing so, the Bank will be closely monitoring the lending portfolios, taking early remedial actions on problematic files and maintaining adequate provisioning coverage while significantly reducing sovereign debt exposure, especially in foreign currency.

Further rationalising of operating expenses

– To create a leaner organisational structure by improving operational efficiency and optimising cost structure.

Reinforcing the performance of foreign subsidiaries

– To maximise the generation of net profits from outside Lebanon, further reinforcing the Bank’s financial standing.

Leveraging on the Private Banking business line and Bank Audi France

– To maintain and ensure a qualitative growth of the customer franchise outside Lebanon.

Operating responsibly together with all stakeholders

– To ensure sustainable development taking into account the economic, social and environmental parameters of our operations in Lebanon and abroad.

The aforementioned current directions are meant to face in as smooth a manner as possible the Crisis Lebanon is struggling with until we reach a stabilisation period and the implementation of the long awaited reform plan. As the prevailing uncertainties and challenges alleviate, the Group is expected to resume its growth and expansion strategy. It is accordingly well understood that Bank Audi’s direction going forward is to retain presence in countries where it can serve and support the Lebanese diaspora in its international business and investment needs.

3.0. | OPERATING ENVIRONMENT

It was evident that the severe economic crisis that erupted in Lebanon since the last quarter of 2019, the State’s default on its foreign debt in the first quarter of 2020, the COVID-19 pandemic crisis which left the country in a lockdown over several weeks starting the second quarter of the year, and the devastating Beirut port explosion in the third quarter, are all factors that weigh on economic activity in 2020, generating real sector sluggishness, monetary and financial drifts, and significant socio-economic pressures on households.

Lebanon’s economy has indeed moved into a stagflationary mode in 2020, with net contractions across all sectors of economic activity compounded with a surge in end-of-year inflation to 111%. The so-called defensive sectors of Lebanon’s economy lost steam while the vulnerable sectors went further in the red.

Within this environment, the IMF forecast Lebanon’s growth at -25% for 2020 in its latest October Global Economic Outlook, the third worst performing country worldwide after Libya and Venezuela. GDP is actually contracting from USD 52 billion to USD 19 billion, a nominal contraction of 64%, of which a 25% contraction in real GDP and a 39% decrease in prices of goods and services in USD. While nominal GDP in Lebanese Pounds increases by 18% in 2020, the significant decrease in nominal GDP in US Dollars is due to the IMF adoption of an exchange rate of USD/LBP 5,000 for 2020, against the 1,507.5 exchange rate adopted for 2019. Subsequently, income per capita in Lebanon declined from USD 7,660 in 2019 (ranking 85th in the world out of 192 countries) to USD 2,745 in 2020 (ranking 135th, with 50 countries surpassing Lebanon in terms of socio-economic conditions in 1 year).

At the external sector level, the year 2020 reported a significant balance of payments deficit of USD 10.6 billion, almost double the balance of payments deficit of USD 5.9 billion that registered in 2019, according to monetary/banking statistics released by Lebanon’s Central Bank. The widening in the deficit in the balance of payments comes despite a 58% contraction in the trade deficit last year, which suggests that the contraction in inflows to Lebanon was even more significant.

The year 2020 was an erratic year for Lebanon’s monetary conditions, marked by dwindling FX reserves, the collapse of the Lebanese Pound against the US Dollar on the black FX market, the emergence of multiple exchange rates, rising concerns over subsidy rationalisation and first LBP interest rate cuts in ten years. The Central Bank of Lebanon’s foreign currency reserves have been dwindling over the year 2020 to reach a critically low level of USD 24.1 billion at end-December 2020 as compared to USD 37.3 billion at end-December 2019, down by USD 13.2 billion. When excluding BdL’s Eurobond holdings estimated at USD 5 billion and facilities provided by the Central Bank to banks, BdL’s foreign assets fell below the USD 18 billion level.

Amid the combination of a widening domestic economic crisis, contracting inflows towards Lebanon and the default of the State on its Eurobonds, banks’ operating conditions have deteriorated significantly over the course of the year 2020 that reported deposit and loan contraction, pressure on bank liquidity, and net losses in income statements, thus drawing on shareholders’ equity.

Measured by the consolidated assets of banks operating in Lebanon, banking activity contracted by USD 28.7 billion over the year 2020, the equivalent of 13.3%. Comparatively, they had contracted by 13.1% over the year 2019, yet against an average growth of 4.7% over the previous five years.

Similarly, customers’ deposits, which represent the bulk of bank assets in Lebanon, reported a contraction of USD 19.7 billion over the year 2020. Since the beginning of 2019, customers’ deposits contracted by a cumulative amount of USD 35.1 billion, the equivalent of 20.2%. Last year’s decline in customers’ deposits is tied to both LBP and FX deposits. LBP deposits contracted by USD 10.8 billion, while FX deposits dropped by USD 9.0 billion. As such, the deposit dollarization went up from 76.0% in December 2019 to 80.4% in December 2020, i.e. a 28-year high.

In parallel, loans to the private sector, the contraction of which accounted for almost two third of deposits’ contraction, reported a decline of USD 13.6 billion over the year 2020. Since the beginning of 2019, loans to the private sector contracted by a cumulative amount of USD 23.2 billion, the equivalent of 39.1%. Last year’s decline in loans to the private sector is mainly tied to FX loans. LBP loans contracted by a mere USD 1.0 billion, while FX loans dropped by USD 12.6 billion. As such, the loans dollarization went down from 68.7% in December 2019 to 59.6% in December 2020, i.e. a 34-year low.

In line with regulatory directives, banks continued to decrease interest rates on both creditor and debtor accounts. The LBP deposit rate contracted by 472 basis points over the year to reach 2.64% at end-December and the USD deposit rate shrank by 368 bps to reach 0.94% (getting closer to international reference rates with the spread between the USD deposit rate and the 3M USD Libor rate at a 12-year low of 70 bps). In parallel, the average LBP loans rate shrank by 132 bps over the period and the USD loans rate declined by 411 bps in 2020.

Concerning sovereign exposure, Lebanese banks’ Eurobond portfolio reported USD 9.4 billion at end-December 2020, the equivalent of 8.4% of FX customers’ deposits, against 11.4% at end-2019 and 13.0% at end-2018. As to primary liquidity abroad, it witnessed a decline of USD 2.1 billion over the last year. With respect to capitalisation, banks’ shareholders’ equity amounted to USD 19.9 billion at end-December 2020, against USD 20.7 billion at end-2019.

As such, banks are continuing to experience difficult operating conditions and have been focusing their efforts on provisioning against potential losses tied to their private sector lending portfolios and sovereign

Eurobond holdings, while striving to boost capitalisation (by a cumulative 20%) and meet liquidity requirements (3% of their FC deposits held in liquid form abroad) by February 2021 as per the latest BdL guidelines.

The arising challenge is to reform the banking system with restructuring efforts to bolster its financial standing and ability to withstand pressures. What is needed first and foremost is the necessity of unifying capital control measures adopted by banks under a Capital Control law prepared by the government and adopted by Parliament, in order to avoid any discrimination between banks, ensure a fair and equitable treatment for all customers, and eliminate legal risks against the banking sector. But restructuring is also needed. With a banking sector nearly 3 times larger than GDP, it is normal to say that the local banking sector is overcrowded. The prudential regulations imposed by the Central Bank in terms of liquidity and capitalisation requirements should reduce the number of operating banks through BdL liquidation or mergers, liquidate most of foreign subsidiaries of Lebanese banks, and reduce the size of the sector relative to the size of the economy to a level in line with countries that have similar economic structures as Lebanon.

Finally, the main monetary challenge revolves around putting the monetary situation on a sustainable path given the retreat in BdL’s liquid FX reserves to below USD 18 billion amid noticeable financing needs in foreign currencies and that are estimated at no less than USD 7 billion per annum. The State is currently facing a tough paradox of double-edge sword:

- (i) Either it decides to stop the subsidy, which means hyperinflation and additional socio-economic pressures on households as the prices of wheat, gasoline and pharmaceuticals would be inflated by 500% if fully left to the black market. This means an additional 100% rise to the overall CPI which has already reported 111% on annual basis in December.
- (ii) Or it decides to continue subsidising, which means putting at stake the required FX reserves (i.e. it would dig into the USD 17 billion of required reserves of banks in FX) and ultimately put at stake customers’ FX deposits in banks.

The only genuine way to break such a vicious circle is to secure foreign assistance amid the new upcoming government agreeing with the IMF on a full-fledged program that would bring some credibility to the State’s reform implementation, and thus draw on other donors to assist Lebanon once the road for adjustment reforms is adequately paved.

LEBANON'S MAJOR ECONOMIC INDICATORS

(USD Million)	2019	2020	Var 20/19
Macro economy			
GDP	52,522	18,734	-64.3%
Real GDP growth (%)	-6.9%	-25.0%	-18.1%
GDP per capita (USD)	7,661	2,745	-64.2%
Monetary sector			
Var M3	-6,741	-1,844	-72.7%
Velocity	0.34	0.36	5.6%
Cleared checks	56,971	53,818	-5.5%
CPI inflation (end-period %)	4.6%	111.0%	106.4%
Public sector			
Gross domestic debt ^(*)	55,905	59,671	6.7%
Foreign debt ^(*)	33,573	35,835	6.7%
Total gross debt ^(*)	89,478	95,506	6.7%
Public revenues ^(**)	7,704	6,144	-20.2%
Public expenditures ^(**)	10,655	8,679	-18.5%
Fiscal deficit ^(**)	2,951	2,535	-14.1%
External sector			
Imports ^(***)	16,613	9,073	-45.4%
Exports ^(***)	3,100	2,969	-4.2%
Trade deficit ^(***)	13,513	6,104	-54.8%
Current account deficit	-14,416	-3,059	-78.8%
Current account deficit/GDP	-27.4%	-16.3%	11.1%
Balance of payments	-5,851	-10,551	80.3%
Banking sector			
Var: Total assets	-32,703	-28,739	-
% change in assets	-13.1%	-13.3%	-0.1%
Var: Total deposits	-15,418	-19,723	-
% change in deposits	-8.8%	-12.4%	-3.6%
Var: Total credits	-9,617	-13,601	-
% change in credits	-16.2%	-27.3%	-11.1%

(*) 11-month figures for 2019 and 2020.

(**) 8-month figures for 2019 and 2020.

(***) 10-month figures for 2019 and 2020.

Sources: IMF, Lebanon Ministry of Finance, BdL and concerned public, and private entities.

4.0. | CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

4.1. | BUSINESS OVERVIEW IN 2020

2020 witnessed a continuation of the broad concerns over the adverse political and economic developments affecting several countries of presence of the Group in the region, more specifically Lebanon and Turkey, further aggravated by the outbreak of the COVID-19 pandemic worldwide. Notwithstanding, the October 2019 events triggered a complete erosion of confidence in the Lebanese economy. This has resulted in a sudden stop of capital inflows and a severe systemic bank-run, which in turn prompted de-facto capital controls and an overall banking sector crisis. Because of those developments, the Group has witnessed significant challenges in its Lebanese core market operations, which have also impacted the Bank’s international activities due to the perceived association of its foreign branches and subsidiaries with Lebanon.

The effect of the Lebanese Crisis on the Group was further exacerbated by the impact of the COVID-19 pandemic affecting all markets of presence,

prompting the Bank to further restrict its development or growth while awaiting remedy of the Lebanese Crisis through a government Reform Plan, and weathering away the effect of the pandemic.

Within this context, the Bank’s priorities for 2020 have been geared towards the consolidation and de-risking of the domestic franchise and operations, and the ring-fencing of foreign entities and branches from Lebanon spillover effects. This entailed sustaining the deleveraging and de-risking policy while favouring operational efficiency improvements, particularly on the cost side. Priorities covered a continued deleveraging of loans, a close monitoring of the lending portfolios taking early remedial actions on problematic files and maintaining adequate provisioning coverage, significantly reducing sovereign debt exposure, particularly in foreign currency, within a cost rationalisation policy. Several initiatives were also undertaken to strengthen the Bank’s capital buffers.

RECENT DEVELOPMENTS IN LEBANON

Since 17 October 2019, Lebanon, the Group’s principal market, witnessed a fiscal, economic, monetary and political crisis, unprecedented in scope and scale, which has affected the entire Lebanese banking sector, creating major disruptions in the activity. Subsequently, the year 2020 saw the shaping of a new operating environment characterised by a lack of observable indicators, a persisting lack of visibility on the much awaited national reform plan, a multitude of exchange rate with a high gap between the parallel market rates, the platform rate and the official exchange rate, a deepening recession and hyperinflation, all translating in high and excessive uncertainties. Within this context, Bank Audi, along with the rest of Lebanese banks, was compelled to introduce certain temporary restrictive measures and unofficial capital controls with respect to banking and cash transactions in foreign currencies to limit the run-off of offshore liquidity.

The disruptions, uncertainties and volatility were exacerbated by the COVID-19 pandemic which has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. In Lebanon, this pandemic added to the severity of the economic downturn. Furthermore, on 4 August 2020, a large explosion occurred at the port of the city of Beirut, causing a high number of casualties and material damages. The Beirut port explosion affected several individuals and businesses, and contributed to further deterioration of the economic environment and disruption of businesses. The Group’s head office, situated within the area, was badly hit and 2 branches were completely destroyed. Costs incurred to repair the damages amounted to USD 6.1 million, of which USD 5.8 million were recorded under capital expenditures and USD 277 thousand were recorded in the consolidated income statement under “expenses”. Nevertheless, the Group was operational and opened to its customers on 6 August 2020, and the head office was accessible to employees as of 10 August 2020.

On this backdrop, the Central Bank of Lebanon issued certain guidelines/circulars aiming at reinforcing the financial standing of banks operating in Lebanon in the face of those adverse developments, of which most principally:

- On 26 August 2020, the Central Bank of Lebanon issued Intermediary Circular 567 requesting banks operating in Lebanon to (i) increase the regulatory capital through contributions in foreign currencies, in an amount equivalent to 20% of the Common Equity Tier 1 as at 31 December 2018 before 31 December 2020 (and extended subsequently to 28 February 2021) (a capital enhancement measure to be achieved by all banks in Lebanon regardless of whether or not their capital levels are adequate); and (ii) to cover the capital shortfall, if any, to meet the minimum required regulatory capital ratios as determined by the circulars of the Central Bank of Lebanon.
- On 27 August 2020, the Central Bank of Lebanon issued Basic Circular 154 which covered exceptional measures meant to revive the business of banks operating in Lebanon up to their pre-October 2019 level, in particular in terms of liquidity and solvency. Banks were chiefly required to introduce several initiatives to attract foreign liquidity or “fresh funds” in order to (i) cover their offshore liquidity needs and (ii) to have an account with an offshore correspondent bank, free from any obligation (liquidity abroad), exceeding 3% of their total deposits in foreign currencies on 31 July 2020.

Within this context, Bank Audi continued to exert extended efforts to consolidate its financial position, reinforce its financial standing, and comply with the regulatory requirements. These efforts covered:

1- Decrease its Exposure to Lebanese Government Eurobonds

At end-December 2019, the Group held an exposure to Lebanese government Eurobonds having a nominal value of USD 1.98 billion. Part and parcel of an adopted active de-risking strategy, Bank Audi sold, in the first half of 2020, the vast majority of the Lebanese Eurobonds exposure, with most of the sale extending to instruments with medium to long-term maturities. The Bank recorded a gross loss of circa USD 1.1 billion, partially offset by the booking of present value of cash flows from related LBP structure and the release of ECL amounting to USD 701 million booked in 2019. As at 31 December 2020, the consolidated net exposure of Bank Audi to Lebanese Eurobonds was limited to USD 9.1 million (of which USD 2.9 million held in entities in Lebanon), held at amortised cost. At the same date, ECLs on this remaining portfolio amounted to USD 49 million, valued based on an average price for the instrument of USD 15, implying potential gains should the market exceed this level.

2- Increase in Core Equity

The Extraordinary General Assembly of shareholders of Bank Audi sal convened on 20 February 2020 and approved USD-denominated cash contributions from the Bank’s shareholders, in an amount of USD 209 million. The General Assembly also resolved to convert said cash contributions into ordinary shares of the Bank through the issuance of 189 million common shares at the price of USD 1.11 per common share. The Central Bank of Lebanon approved said actions on 4 March 2020, which were subsequently confirmed by the Extraordinary General Assembly in its meeting held on 6 March 2020. Shareholders owning 65% of the Bank’s capital, among which EBRD, participated in the cash contributions, signaling a renewed commitment to support the Bank within the prevailing exceptional situation.

In addition to the above, the Bank received dividends, during the course of 2020, amounting to USD 110 million (of which USD 30 million in fresh funds), which also account for the required capital accumulation. Accordingly, Bank Audi would have accumulated USD 319 million of cash capital in the year 2020 out of a total requirement of USD 622 million as defined by Intermediary Circular 567. Following those initiatives, the Bank’s capital adequacy ratio exceeded in all its components the minimum regulatory requirements.

The remaining USD 303 million are expected to be largely covered from the proceeds of the sale of the Bank’s operations detailed below, further strengthening the Bank’s solvency and ability to withstand additional deterioration in the operating and financial conditions, specifically in Lebanon. Notwithstanding, the Group will continue to assess recapitalisation plans based on various scenarios to further reinforce its capital buffers.

3- Sale of Its Foreign Operations

3.1. Sale of Bank Audi sae (Egypt)

In February 2020, and in consideration of the sustained uncertainties tied to Lebanon’s economic and financial outlook, as well as of the resulting focus by the Bank on its domestic Lebanese franchise and of its objective to reinforce its role in facing the considerable challenges Lebanon has been exposed to, Bank Audi initiated exclusive exploratory discussions

with First Abu Dhabi Bank, for the potential sale of Bank Audi Egypt, which remained subject to the receipt of regulatory approvals. The selection of First Abu Dhabi Bank as exclusive bidder on this transaction was made taking into account the business continuity of Bank Audi Egypt and the interests of its stakeholders, in addition to the beneficial impact which the transaction is expected to have on the Bank’s future business development.

In May 2020, and after having undergone the customary due diligence process and held productive discussions with significant progress made on many points, said discussions were stopped through a mutual agreement between the parties, due to the unprecedented circumstances and uncertain outlook relating to the COVID-19 pandemic. In October 2020, Bank Audi agreed with First Abu Dhabi Bank (FAB) to resume their exclusive negotiations. Having received the preliminary approval of the Central Bank of Egypt, the talks aimed at building on the earlier progress, while completing a confirmatory due diligence review and finalising the definitive agreement.

On 20 January 2021, Bank Audi and First Abu Dhabi Bank entered into a Share Purchase Agreement (“SPA”) for the sale of 100% of the share capital of Bank Audi sae (Egypt) and the assignment of the subordinated debt previously provided by Bank Audi to its subsidiary in Egypt (plus accrued interest on said subordinated debt). The SPA also encompassed other customary terms and conditions (including, but not limited to, the transaction closing mechanism, the conditions to closing (mainly the approval of the Ordinary General Meeting and of the relevant regulatory authorities), interim covenants, general undertakings, indemnities, warranties, disclosures, limitations of liability, termination rights, non-compete undertakings, transitional services agreements, and others). The aggregated price consideration for this sale amounted to USD 660 million, constituting an attractive premium of 38% to the current trading average of listed banks in Egypt. The price consideration was further supported by the fairness opinion provided by JP Morgan to the Bank’s Board of Directors. On 12 February 2021, the Bank’s Ordinary General Assembly resolved to approve the sale transaction. Representing the best outcome for all constituencies of Bank Audi and a strong vote of confidence in the effectiveness of the Group’s governance and business model across the region, the transaction was completed in the second quarter of 2021, following the satisfaction of customary conditions, including the receipt of regulatory approvals in the UAE and Egypt.

As at end-December 2020, Bank Audi sae (Egypt) had total assets of EGP 85.6 billion (corresponding to USD 5.4 billion) and shareholders’ equity of EGP 8.0 billion (corresponding to USD 508 million). Circa 1,600 employees supported well-established Retail and Corporate Banking propositions served through a network of 53 branches.

3.2. Sale of Assets and Liabilities of Bank Audi sal – Jordan Branches and Iraq Network

On 29 December 2020, Bank Audi entered into a business transfer agreement with Capital Bank of Jordan in connection with the sale of Bank Audi sal – Jordan Branches, including its assets and liabilities , and a business transfer agreement with National Bank of Iraq, a subsidiary of Capital Bank of Jordan, in connection with the sale of Bank Audi sal – Iraq Branches, including its assets and liabilities. These transactions were made in consideration of the significant impact the crisis in Lebanon has had on Bank Audi sal – Jordan and Iraq networks’ activity and profitability, the limited growth opportunities in both the Jordanian and Iraqi markets, and the beneficial impact of the transaction on the liquidity and solvency of Bank Audi Group, allowing it to comply with the regulatory requirements

of BdL’s Intermediary Circular 567. The acquisitions were achieved after an in-depth due diligence exercise conducted in accordance with the applicable legislations, and after obtaining the preliminary approvals of the Central Bank of Lebanon, the Central Bank of Jordan and the Central Bank of Iraq.

Pursuant to these agreements, Capital Bank Group acquired the operations of Bank Audi sal – Jordan Branch Network and Bank Audi sal – Iraq Branch Network, encompassing 14 branches in Jordan and 5 branches in Iraq supported by 228 and 68 employees respectively. At end-December 2020, Bank Audi’s assets in Jordan reached JOD 503 million (USD 709 million), while those of its Iraq branches reached IQD 316 billion (USD 216 million).

The business transfer agreements encompassed terms and conditions including, but not limited to, the conditions to closing (mainly the approval of Bank Audi’s Ordinary General Meeting, and of the relevant regulatory authorities), general undertakings, indemnities, warranties, disclosures, limitations of liability, termination rights, integration and migration plans, and others. The transactions were based on a combined valuation of the two businesses of USD 165 million, part of which a cash consideration and part by irrevocably waiving Bank Audi’s obligations to these branches, which reduces the Bank’s external liabilities.

On 12 February 2021, the Bank’s Ordinary General Assembly resolved to approve the sale transactions which are expected to complete in the first quarter of 2021, following the satisfaction of customary conditions. As at the date of this report, final approvals of relevant regulatory authorities in the Jordan and Iraq have been obtained. On 11 March 2021, the sale transactions were completed.

3.3. Sale of Bank Audi’s Shares in Bank Audi Syria (BASY)

In the third quarter of 2016, the Group decided to deconsolidate Bank Audi Syria owing to a number of considerations mostly tied with the prevailing crippling situation in the country and complete lack of visibility. At the time, the Bank also resolved to explore opportunities to divest of its fully impaired investment. Potential buyers were scarce until early 2020 when Banque Bemo Saudi Fransi expressed its interest in the transaction. BBSF fulfilled one of the pre-condition set by the Bank, by engaging with the Central Bank of Syria to seek its approval for the change of the name of Bank Audi Syria, obtained on 28 January 2020. The final approval from the Council of Ministers regarding the change of name was granted on 17 December 2020. On 8 march 2021, the Central Bank of Syria rendered its final approval on the transaction, and the name change was reflected in the commercial registry on 29 March 2021, allowing for the signs to be replaced.

The transaction was completed on 29 March 2021, allowing the Bank (i) to conclude its exit from Syria which was initiated in 2016, (ii) to protect itself from the heightened and increasing compliance risk the Group is facing because of its profile as the single largest shareholder, and (iii) to book a financial gain on its fully impaired foreign investment with a beneficial impact on Bank Audi’s consolidated Common Tier 1 Equity.

Proceeds from the sale of the Bank’s operations in Egypt, Jordan and Iraq, and of its investment in Bank Audi Syria aggregated a cumulative USD 841 million, increasing stand-alone equity by USD 306 million, of which USD 291 million in fresh dollars.

4- Continued Active Deleveraging of the Loan Portfolio in Lebanon

In view of the negative economic outlook and the deepening recession, the credit quality of the private loans portfolio concentrated in Lebanon has deteriorated since the last quarter of 2019, driving Management to toughen its loan deleveraging policy initiated in 2017 and to set up a centralised and specialised remedial function to proactively review and manage the quality of these loans. In 2020, the Bank devised to maintain a close monitoring on Stage 2 loans in particular in order to mitigate the risk of their transfer to Stage 3, while increasing focus on collection and allocating proactively the required provisions in anticipation of

4.2. | CONSOLIDATED FINANCIAL OVERVIEW IN 2020

The evolution of the Group’s financial position, results of operations and business prospects is closely related to the overall political, social and economic situation in its countries of presence in 2020, particularly in Lebanon. As a result of the government fallout, the deepening recession, the currency crisis and the hyperinflation prevailing in Lebanon, the financial position of the Group does not reflect the adjustments that would be required by IFRS. Due to the high levels of uncertainties, Management is unable to estimate in a reasonable manner or within a reasonable timeframe the adverse impact of the aforementioned matters

further deterioration in the quality. Within this context, gross loans of entities operating in Lebanon dropped further from USD 4.8 billion as at end-December 2019 to USD 3.4 billion as at end-December 2020, representing a decrease by USD 1.4 billion or 30%. In terms of coverage of Stage 3 loans, the Bank relies on real guarantees representing 69.2% of gross Stage 3 loans, in addition to the impairment allowance the Bank has already provided, standing at 61% of those loans making up an aggregate coverage of 130.6% in Lebanese entities, thus representing a comfortable buffer in case of further deterioration. Besides, the Bank can additionally recourse to USD 105 million of general provisions if needed.

on the Bank’s financial position and equity which it anticipates to be material.

In line with the Bank’s consolidation and de-risking policy, consolidated assets of Bank Audi contracted, in 2020, by 10.4%, from USD 39.5 billion as at end-December 2019 to USD 35.4 billion as at end-December 2020. Consolidated assets, including fiduciary deposits, security accounts and AuMs reached USD 44.2 billion at the same date, compared to USD 50.5 billion as at end-December 2019, underscoring a contraction by 12.6%.

The table below sets out the evolution of the Group’s financial position as at end-December 2020as compared to end-December 2019:

SUMMARISED STATEMENT OF FINANCIAL POSITION

(USD Million)	Dec-19	Dec-20	Volume Dec-20/Dec-19	%
Cash & placements with banks and central banks	17,279	14,540	-2,739	-15.9%
Portfolio securities	9,191	6,433	-2,758	-30.0%
Loans to customers	10,350	6,136	-4,213	-40.7%
Other assets	1,786 ^(*)	7,846 ^(*)	6,061	339.4%
Fixed assets	930	476	-455	-48.9%
Assets= Liabilities + Equity	39,535	35,431	-4,104	-10.4%
Bank deposits	4,810	3,677	-1,133	-23.6%
Customers' deposits	29,594	21,528	-8,066	-27.3%
Subordinated debt	797	797	0	0.0%
Other liabilities	1,365	6,477	5,112	374.6%
Shareholders' equity (profit included)	2,970	2,951	-19	-0.6%
AUMs + fid. dep. + cust. acc.	11,010	8,752	-2,258	-20.5%
Assets + AUMS	50,545	44,183	-6,362	-12.6%

^(*) In 2020, other assets includes assets held for sale amounting to USD 6,297 million and assets obtained in settlement of debt amounting to USD 135 million. In 2019, the latter was placed under fixed assets.

Following the signing of definitive agreements in December 2020 and January 2021 for the sale of the Group’s entities in each of Jordan, Iraq and Egypt, those entities were treated as per applicable accounting standards as discontinued operations. Their financials are henceforth not reflected in the line-by-line structure of the statement of financial position as at end-December 2020 the same way it is as at end-December 2019; rather their assets are booked under “assets held for sale” and “liabilities held for sale” respectively (sub captions of “other assets and other liabilities” in the summarised statement of financial position above). In the income statement, the net profits generated by those operations in 2020 are booked under “results from discontinued operations”.

Consolidated assets under management, including fiduciary deposits and custody accounts, have in turn decreased from USD 11 billion as at end December 2019 to USD 8.8 billion as at end-December 2020. The USD 2.3 billion decrease is mostly attributed to entities operating outside Lebanon, of which a decrease by USD 1.4 billion in Banque Audi (Suisse) partially offset by an increase by USD 684 million in Odea Bank. The deconsolidation of Bank Audi Egypt accounts for USD 1.7 billion of the decrease.

An analysis by geography as at end-December 2020 reveals that 43.8% of consolidated assets are booked in entities outside Lebanon compared to 37.5% as at end-December 2019, clearly witnessing to the consolidation and de-risking policy followed in Lebanon. Entities outside Lebanon also accounted for 58.5% of consolidated net loans and 28.4% of customers’ deposits as at

end-December 2020, compared to 60.4% and 36.5% respectively as at end-December 2019. Adjusting the consolidated deposits and loans as at end-December 2019 from the contribution of the operations held for sale mentioned above for comparison reasons, entities outside Lebanon would account for 50.4% of consolidated net loans and 24.1% of consolidated deposits.

BREAKDOWN BY GEOGRAPHY

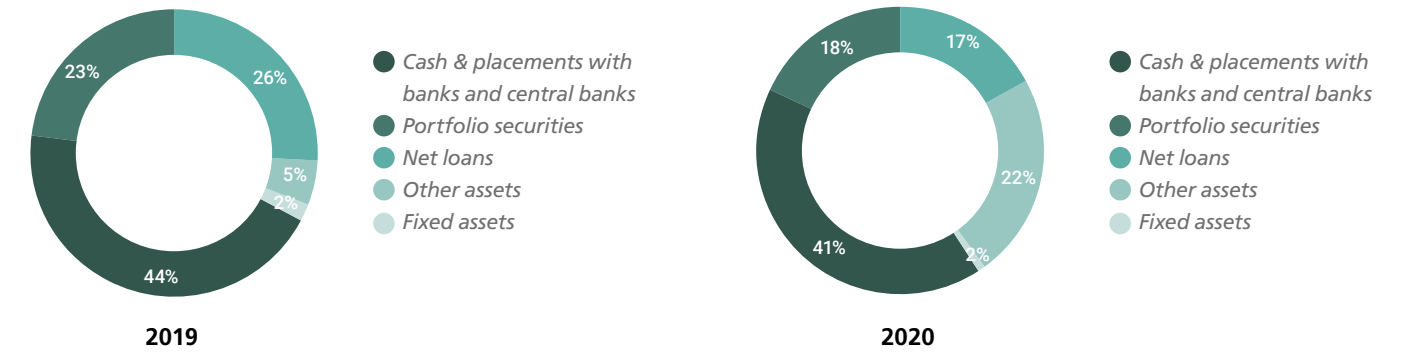
	Assets			Deposits			Loans		
	Dec-19	Dec-20	Change	Dec-19	Dec-20	Change	Dec-19	Dec-20	Change
By region									
Lebanon	62.5%	56.2%	-6.3%	63.5%	71.6%	8.1%	39.6%	41.5%	1.9%
Abroad	37.5%	43.8%	6.3%	36.5%	28.4%	-8.1%	60.4%	58.5%	-1.9%

4.2.1. | ASSET ALLOCATION BY TYPE

The following charts set out the allocation by asset class as at end-December 2020 as compared to end-December 2019. The discussion

that follows analyses the evolution of the various asset classes and their respective key indicators over the same period.

ASSETS BREAKDOWN



4.2.1.1. Changes in Placements with Central Banks and Banks

The Bank’s placements with central banks and banks (comprised principally of cash, as well as amounts held at BdL and other central banks, including free accounts and compulsory reserves, and excluding certificates of deposit issued by BdL), placements with banks and loans to banks and reverse repurchase facilities with central banks and financial

institutions dropped from USD 17.3 billion as at end-December 2019 to USD 14.5 billion as at end-December 2020, representing a decrease by USD 2.7 billion of 15.9%. Relative to customers’ deposits, placements with central banks and banks represented 67.5% of customers’ deposits as at end-December 2020 as compared to 58.4% as at end-December 2019, with the change explained by a higher contraction in customers’ deposits at 27.3% than in those placements over the same period.

The table below sets out the breakdown of those placements by type and by currency as at end-December 2020:

PLACEMENTS WITH CENTRAL BANK AND BANKS (EXCLUDING CDs)

(USD Million)	LBP	USD	EUR	EGP	TRY	JOD	OTHERS	TOTAL
Central banks	2,791	8,118	1,014		38		966	12,927
o.w. Reserves requirements	276	2,173	10		0		0	2,459
o.w. Cash deposits	2,515	5,945	1,004		38		966	10,468
Placements with banks	7	754	286		205		361	1,613
o.w. Deposits with banks	4	754	273		46		361	1,438
o.w. Loans to banks and financial institutions and reverse repurchase agreements	3				159			175
Total placements	2,798	8,872	1,300	-	243	-	1,326	14,540

The Bank’s placements with central banks and banks in Lebanese Pounds are essentially composed of cash and deposits with the Central Bank of Lebanon. Placements in Lebanese Pounds amounted to USD 2.8 billion as at end-December 2020, decreasing from USD 4.3 billion as at end-December 2019. When adding certificates of deposit issued by BdL in Lebanese Pounds, total placements in LBP would reach USD 2.9 billion as at end-December 2020 as compared to USD 4.8 billion as at end-December 2019. This contraction mirrors predominantly the decrease in funding in LBP, in parallel with the significant conversion of deposits from LBP to foreign currencies.

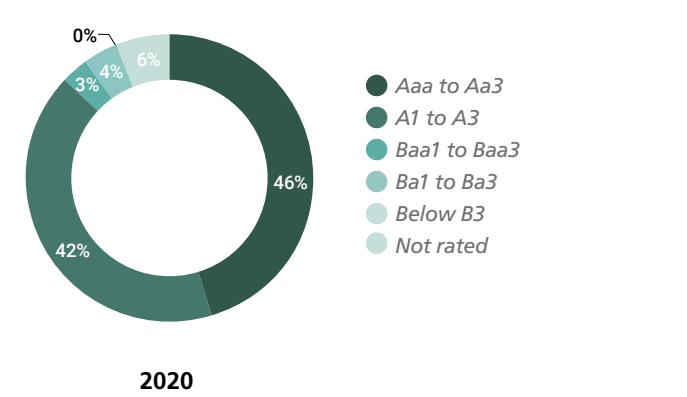
representing 50.1% and 62.7%, respectively, of consolidated customers’ deposits in foreign currencies. This contraction reflects a decrease in placements with central banks by USD 1 billion over the period, with the remaining accounted for a decrease in reverse repo agreements with the Central Bank of Lebanon. When adding certificates of deposit issued by BdL in foreign currency, total placements in foreign currency would reach USD 14.3 billion as at end-December 2020 as compared to USD 16.6 billion as at end-December 2019, decreasing by USD 2.3 billion.

The Bank’s placements with central banks and banks in foreign currency consist of cash and short-term deposits placed at the Central Bank of Lebanon and other central banks, excluding certificates of deposits issued by BdL, and placements in prime banks in OECD countries. The Bank’s placements with central banks and banks in foreign currencies decreased by USD 1.2 billion over the period, moving from USD 13 billion as at end-December 2019 to USD 11.7 billion as at end-December 2020,

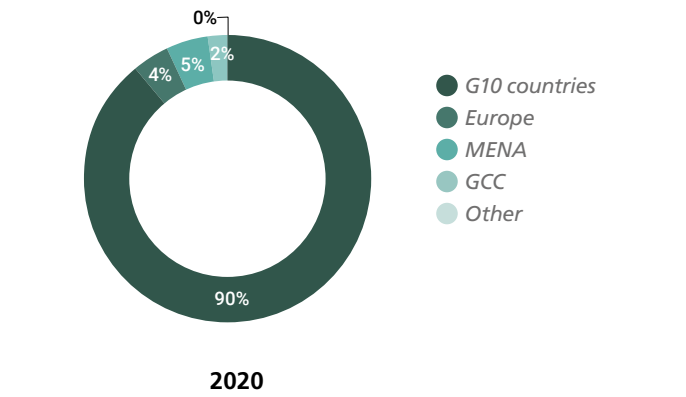
In parallel, placements with correspondent banks in foreign currencies stood at USD 1.4 billion as at end-December 2020, accounting for 7.7% of foreign currency-denominated deposits at the same date compared to 5.6% as at end-December 2019. Those placements are mainly based in low risk OECD and GCC countries that show high levels of solvency and financial and monetary stability. 88% of the placements (excluding reverse repo agreements) denominated in foreign currency are held in banks rated A3 or better.

The charts below set out the breakdown of money market placements held with banks (excluding reverse repo agreements) as at end-December 2018 by rating and geographic location:

BREAKDOWN OF PLACEMENTS WITH BANKS BY RATING IN 2020



BREAKDOWN OF PLACEMENTS WITH BANKS BY REGION IN 2020



Management is putting all its resources to improve this level. During the course of 2020, and similar to other Lebanese banks, Bank Audi has introduced certain temporary restrictive measures and unofficial capital controls with respect to banking and cash transactions in foreign currencies to limit the run-off of offshore liquidity, and has introduced several measures to attract foreign liquidity or “fresh funds” in order to (a) cover its offshore liquidity needs and to (b) have an account with an offshore correspondent bank, free from any obligation (liquidity abroad), exceeding 3% of the Bank’s total deposits in foreign currencies on 31 July 2020, in accordance with Article 2 of the Central Bank of Lebanon Basic Circular 154. Those measures encompass:

- Inciting depositors that transferred abroad, during the period from 1 July 2017 to 27 August 2020, more than USD 500,000 (or their equivalent in foreign currencies), to return a percentage of the transferred amount, in application of Central Bank of Lebanon Basic Circular 154.
- Introducing the “multiplier factor” which entails inciting depositors of “fresh funds”/offshore funds deposited/transferred to the Bank to exchange these funds against local foreign currency funds (in Lebanese Dollars “Lollars”) after the application of an appealing multiplier factor during 2020. The Bank estimated losses from these transactions at USD 631 million during 2020.
- Encouraging depositors of fresh funds transferred to the Bank after the

4.2.1.2. Changes in Securities’ Portfolio

The Bank’s portfolio of securities is comprised principally of certificates of deposits issued by the Central Bank of Lebanon, Lebanese Pound-denominated Treasury bills, non-Lebanese sovereign bonds, other fixed income instruments and equity securities.

In 2020, the Bank’s portfolio’s securities decreased by 30%, from USD 9.2 billion as at end-December 2019 to USD 6.4 billion as at

month of April 2020 and that do not wish to resort to the multiplier method above, by preserving all right to use of these funds in normal banking transactions (pre-October 2019) in application of the Central Bank of Lebanon’s Basic Circular 150 dated 9 April 2020. The Bank processed, until 30 March 2020, cumulative activity of this type of accounts in excess of USD 4.4 billion. Flows to such External Accounts have been on a constant rise, underscoring an improved customer confidence in Bank Audi.

- Repatriation of dividends from foreign subsidiaries and branches.
- Sale of foreign entities (refer to section entitled “Recent Developments”).
- Exchanging international subordinated debt of USD 350 million issued in 2013 into locally payable subordinated debt.

Based on those measures, the Bank is in compliance with the 3% requirement of the Central Bank of Lebanon by end of February 2021, in terms of offshore foreign liquidity as a percentage of total deposits in foreign currencies at 31 July 2020. Notwithstanding, the Bank is not confident that the offshore foreign liquidity levels it maintains are sufficient to cover all its offshore commitments as they become due and restore the activities of the Bank to normal levels as at before October 2019. Please refer to note 53.A. of the 2020 consolidated financial statements for a detailed position of offshore assets and offshore liabilities as at 31 December 2020 and 2019.

end-December 2020. The corresponding USD 2.8 billion decrease is attributed on the one hand to a USD 1.1 billion contraction in BdL’s certificates of deposit in foreign currencies to be added to a USD 604 million decrease in the outstanding exposure to the Lebanese sovereign Eurobonds (including risk-ceded Lebanese Eurobonds), and on the other hand to the deconsolidation of Bank Audi sae (Egypt), deleting the contribution of sovereign Eurobonds denominated in Egyptian Pounds and amounting to USD 1.1 billion as at end-December 2019.

The following table sets out the distribution of the Bank’s securities portfolio, by type of security, as at the dates indicated:

PORTFOLIO SECURITIES BREAKDOWN

(USD Million)	Dec-19	Dec-20	Vol.	%
Central Bank of Lebanon certificates of deposit	4,149	2,640	-1,509	-36.4%
LBP-denominated	481	77	-405	-84.1%
Foreign currency-denominated	3,668	2,563	-1,105	-30.1%
Net Lebanese Treasury bills and Eurobonds	2,330	2,066	-264	-11.3%
LBP-denominated	2,210	2,210	0	0.0%
Foreign currency-denominated	120	-144	-264	-220.4%
Risk-ceded government Eurobonds	493	153	-340	-69.0%
LBP-denominated				
Foreign currency-denominated	493	153	-340	-69.0%
Other non-Lebanese sovereign securities	1,788	962	-827	-46.2%
TRY	154	456	302	196.6%
EGP	1,072		-1,072	-100.0%
JOD	254		-254	-100.0%
USD	173	409	236	136.9%
EUR		97	97	-
Other	136		-136	-100.0%
Other fixed income securities	341	533	192	56.2%
LBP-denominated				
Foreign currency-denominated	341	533	192	56.2%
Equity securities	90	80	-10	-11.1%
LBP-denominated	16	14	-2	-12.5%
Foreign currency-denominated	74	66	-8	-10.3%
Total portfolio securities	9,191	6,433	-2,758	-30.0%

Lebanese Bond and Central Bank Certificates of Deposit Portfolio
As at end-December 2020, Lebanese Pound-denominated Treasury bills continued to represent the same level as at end-December 2019, standing at USD 2.2 billion. Certificates of deposit in Lebanese Pounds issued by the Central Bank of Lebanon decreased by USD 405 million over the year, from USD 481 million as at end-December 2019 to represent a mere USD 77 million as at end- December 2020.

As mentioned above, certificates of deposit issued by the Central Bank of Lebanon in foreign currencies decreased by USD 1.1 billion, reaching USD 2.6 billion as at end-December 2020 as compared to USD 3.7 billion as at end-December 2019. In parallel, the Group’s exposure to Lebanese sovereign Eurobonds net of ECLs including the risk-ceded government bonds decreased from USD 613 million as at end-December 2019 to a mere USD 9 million as at end-December 2020. Those evolutions result from Management’s adopted policy to proactively de-risk the balance sheet and reduce its exposure to the Lebanese sovereign. It contributed to an improvement of the ratio of overall exposure to the Lebanese sovereign (Treasury bills, Eurobonds and certificates of deposit) as a percentage of regulatory Tier 1 capital from 2.53 times as at end-December 2019 to 1.43 times as at end-December 2020, of which 0.69 times was in Lebanese Pounds and 0.73 times was in foreign currencies.

Non-Lebanese Sovereign Securities

The Bank also bears a significant exposure to the sovereign risk of Turkey in TRY with an exposure of USD 456 million as at end-December 2020, rising from USD 154 million as at end-December 2019. Other

non-Lebanese sovereign exposure denominated in USD stood at USD 409 million as at end-December 2020 compared to USD 173 million as at end-December 2019. These represent placements in sovereign securities rated B+ or better.

In relative terms, the Bank’s portfolio of non-Lebanese sovereign bonds represented 14.9% of the total securities portfolio and 5.1% of foreign currency-denominated customers’ deposits as at end-December 2020, as compared to 19.4% and 6.9%, respectively, as at end-December 2019.

Other International Fixed Income Securities

The Bank’s exposure to other international fixed income securities increased in 2020 by USD 192 million from USD 341 million as at end-December 2019 to USD 533 million as at end-December 2020, of which banks and financial institution issuers accounted for 53.4% of the total portfolio, while corporate issuers accounted for 9.5% and remainder 37.1% represented loans to customers at fair value through P&L. The portfolio is characterised by a good level of diversification with the highest single issuer position representing 10% of the total portfolio as at end-December 2020.

IFRS Classification of Portfolio Securities

On the overall, the classification of the securities portfolio over the various asset classes depends on the basis of the business model of each of the Group’s entities for managing the financial assets and the contractual cash flow characteristics of the financial assets. All assets are initially measured at fair value plus, in the case of financial asset not at fair value through profit or loss, particular transaction cost. Assets are subsequently measured at amortised cost, or other comprehensive income or fair value.

The table below sets out the distribution of the Bank’s securities portfolio by asset class and currencies as follows:

PORTFOLIO SECURITIES BY ASSET CLASS

(USD Million)	Dec-19	Dec-20	Vol.	%
Financial assets held at FVTPL	253	260	7	2.9%
LBP-denominated	-	-	-	-
Foreign currency-denominated	253	260	7	2.8%
Financial assets designated at fair value through OCI	766	1,007	241	31.5%
LBP-denominated	16	13	-3	-17.7%
Foreign currency-denominated	750	994	244	32.5%
Financial assets classified at amortised cost	8,172	5,166	-3,006	-36.8%
LBP-denominated	1,638	2,286	647	39.5%
Foreign currency-denominated	6,534	2,880	-3,653	-55.9%
TOTAL PORTFOLIO SECURITIES	9,191	6,433	-2,758	-30.0%
LBP-denominated	1,654	2,299	645	38.9%
Foreign currency-denominated	7,537	4,134	-3,403	-45.1%

As at end-December 2020, financial assets classified at amortised cost continued to represent the vast majority of the portfolio with a share of 80% (compared to 89% as at end-December 2019), shielding the Bank’s results from market price fluctuations. The share of financial

assets designated at fair value through OCI was 15.7% at the same date (compared to 8% as at end-December 2019) while financial assets held at fair value through profit or loss accounted for the remaining 4% (2.8% as at end-December 2019).

The following table sets out the distribution of financial assets classified at amortised cost by type of security, as at end-December 2020 as compared to end-December 2019:

DISTRIBUTION OF FINANCIAL ASSETS CLASSIFIED AT AMORTISED COST BY TYPE

(USD Million)	Dec-19	Dec-20	Vol.	%
Central Bank of Lebanon certificates of deposit	4,149	2,640	-1,509	-36.4%
Net Lebanese Treasury bills and Eurobonds	2,329	2,065	-264	-11.3%
Risk-ceded government Eurobonds	493	153	-340	-69.0%
Other non-Lebanese sovereign securities	1,076	190	-886	-82.3%
Other fixed income securities	124	118	-6	-5.1%
Financial assets classified at amortised cost	8,172	5,166	-3,006	-36.8%

4.2.1.3. Loan Portfolio

Bank Audi offers a full range of credit products to corporates, governments and institutional clients, as well as to small and medium-sized enterprises (SMEs) and to Retail and Private Banking customers. In addition, the Bank has shown a strong expertise in the provisions of Private Banking services, among which Lombard lending, underscoring a form of lending against a diversified portfolio of liquid securities.

In 2020, multiple storms hit the country namely (i) nationwide protests, (ii) default of the sovereign and acute economic crisis, (iii) health pandemic, and (iv) the August 4 port blast. Lebanese banks continued their deleveraging policies started in the previous year, with a particular focus on loans to the private sectors. Henceforth, banking sector loans to the private sector dropped nationwide in 2020 by USD 13.6 billion to reach USD 36.2 billion as at end-December 2020.

As a result, Bank Audi pursued the same guidelines implemented during 2019 and aiming at mitigating the impact of the economic pressure on its loan and asset quality metrics through the implementation of a series of measures. The latter include:

- i) Reducing the size of the consolidated net loan portfolio by USD 4.2 billion in 2020, broken down over (i) USD 2.1 billion through sale of foreign operations in Egypt, Jordan and Iraq, (ii) USD 1.6 billion in Lebanon, and (iii) USD 0.3 billion in Turkey.
- ii) Tightening lending criteria in Lebanon.
- iii) Managing and following up on its loan portfolio on a name-by-name basis, in close cooperation with the Managements of individual entities.

- iv) Increasing collective and specific provision coverages.
- v) Setting up a centralised and specialised remedial function to proactively review and manage the quality of impaired loans.

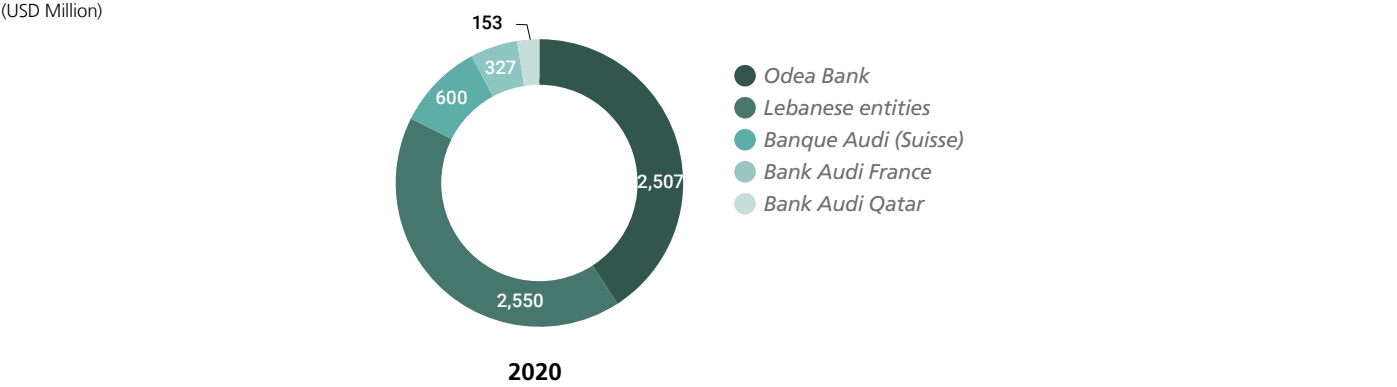
What follows is a discussion of the main drivers behind the evolution of the consolidated loan portfolio during 2020:

The Bank’s loan portfolio contracted by 26% in 2020, corresponding to a decrease by USD 2.1 billion, from USD 8.3 billion as at end-December 2019 (figures restated to exclude those of Bank Audi’s discontinued operations in Egypt, Jordan and Iraq) to USD 6.2 billion as at end-December 2020. This was primarily due to:

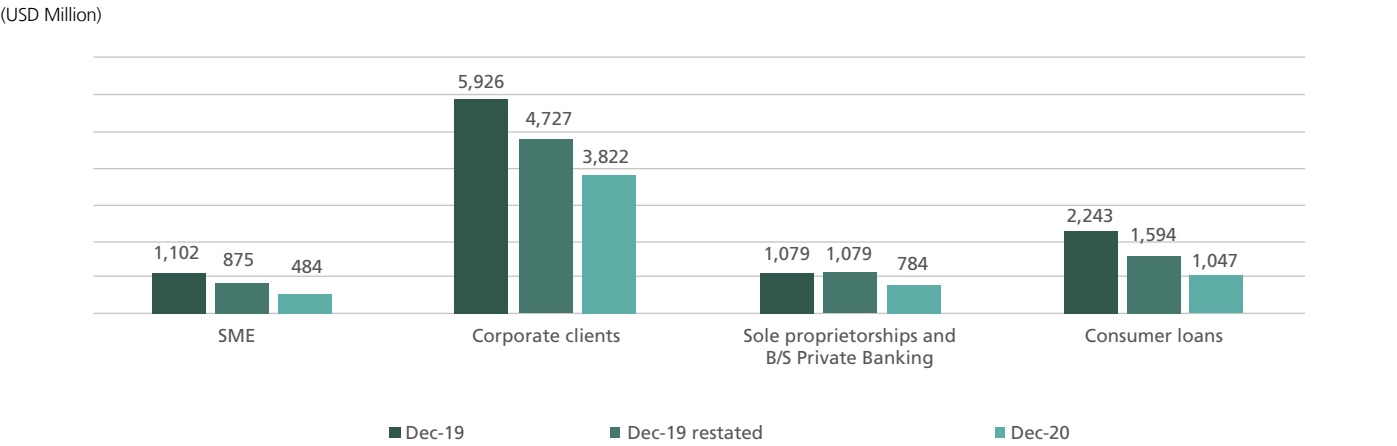
1. A USD 1.6 billion contraction in Lebanese entities (of which 50% in the first quarter of 2020), driven mainly by large obligors settling their debt as scheduled and/or accelerating settlement through their existing creditor accounts at our end.
2. A net decrease of USD 269 million in Turkey’s operations attributed mainly to an FX effect following the devaluation of the Turkish Lira versus the US Dollar over the period. In real terms, loans to customers of Odea Bank increased by USD 39 million, amid a negative FX translation effect of USD 308 million.

A distribution of net loans by entity as at end-December 2020 reveals that 42% of consolidated net loans were booked in entities operating in Lebanon, 41% in Odea Bank (Turkey), 10% in Banque Audi (Suisse) (Switzerland) and 7% in other entities.

BREAKDOWN OF NET LOANS & ADVANCES BY ENTITY AS AT END-DECEMBER 2020



BREAKDOWN OF NET LOANS & ADVANCES BY TYPE OF CUSTOMER



Analysis of Loans by Class of Borrower

The distribution of the Bank’s consolidated loan portfolio by type of borrower continues to show a concentration in the corporate segment, which constituted 62% of the loan book as at end-December 2020, with consumer loans as the next largest segment with 17% of the portfolio. In Lebanon and Turkey, the various challenges that kept pressuring corporate profits severely limited new lending opportunities throughout 2020.

Analysis of Loans by Economic Sector

As per its risk appetite framework, the Bank continued, in 2020, to focus on controlling its industry concentration risk through diversifying its exposure across economic sectors. The relatively high level of foreign currency loans in the context of a volatile local currency, mainly in Turkey and Lebanon, resulted in a significant contraction in risky sectors such as real estate, mainly financing by deposits. In addition, the prevailing pandemic disrupted the tourism, malls and retail trade sectors which are expected to undergo a significant number of restructuring measures to ensure their viability in the post pandemic stage.

BREAKDOWN OF NET LOANS AND ADVANCES BY ECONOMIC SECTOR

	Dec-19		Dec-19 Restated		Dec-20	
	Funded O/S	%	Funded O/S	%	Funded O/S	%
(USD Million)						
Manufacturing industries	1,193	11%	725	9%	778	13%
Developers	1,028	10%	990	12%	719	12%
Real estate services	615	6%	557	7%	262	4%
Wholesale trade	750	7%	519	7%	341	6%
Non-bank holdings & financial entities	819	8%	751	9%	491	8%
Electricity, gas & water	534	5%	358	4%	312	5%
Contractors	302	3%	207	2%	156	3%
Commercial retail trade	347	3%	259	3%	294	4%
Hotels & restaurants	488	5%	444	5%	399	6%
Consumer loans	2,243	22%	1,594	19%	1,047	17%
Other sectors	2,031	20%	1,871	23%	1,382	22%
Total portfolio	10,350	100%	8,275	100%	6,136	100%

At 16% of the Bank’s consolidated loan portfolio, the real estate sector encompassing real estate services and developers represented the largest industry concentration as at end-December 2020. In absolute terms however, exposures to these sectors have dropped by a significant USD 566 million during the year (-37%).

Analysis of Loans by Maturity

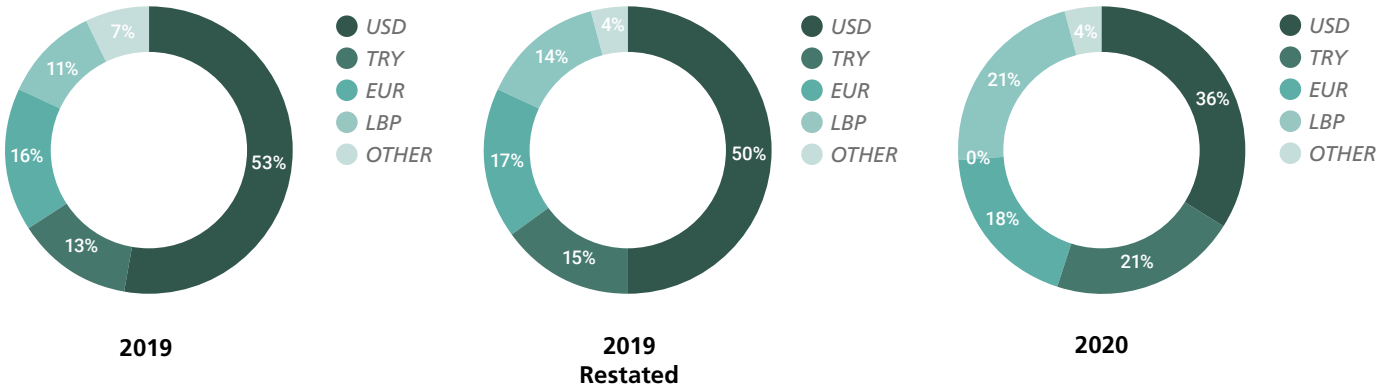
BREAKDOWN OF NET LOANS & ADVANCES BY MATURITY SINCE INCEPTION

	Dec-19		Dec-19 Restated		Dec-20	
		%		%		%
(USD Million)						
Short-term facilities	3,565	34%	2,939	36%	2,094	34%
Medium-term facilities	1,239	12%	753	9%	837	14%
Long-term facilities	5,546	54%	4,583	55%	3,205	52%
Total	10,350	100.0%	8,275	100.0%	6,136	100%

Analysis of Loans by Currency

The following charts show the distribution of the Bank’s loan portfolio by currency as at end-December 2020 as compared to end-December 2019:

BREAKDOWN OF NET LOANS & ADVANCES BY CURRENCY



The proportion of loans denominated in USD stood at 36% at end-December 2020, down from 50% at end-December 2019 due to the contraction of the Lebanese loan book in USD. This substantial share is broadly in line with the dollarization rate of the Bank’s Lebanese and Turkish entities, which were nonetheless witnessing growing concerns of devaluation of local currencies in those countries, leading to substantial prepayments of FX exposures.

Analysis of Loans by Type of Collateral

At end-December 2020, 64% of the consolidated loan portfolio was secured predominantly by real estate mortgages (40%) and by cash collateral and bank guarantees (8%).

The following table shows the distribution of the Bank’s loan portfolio by type of collateral as at end-December 2020 as compared to end-December 2019:

BREAKDOWN OF NET LOANS & ADVANCES BY COLLATERALS

	Dec-19		Dec-19 Restated		Dec-20	
		%		%		%
(USD Million)						
Secured	6,055	58%	5,315	64%	3,907	64%
Cash co. & bank guarantee	1,331	13%	895	11%	460	8%
Real estate mortgage	3,290	32%	3,058	37%	2,482	40%
Securities (bonds & shares)	1,018	10%	1,009	12%	784	13%
Vehicles	119	1%	113	1%	96	2%
Others	297	3%	240	3%	85	1%
Unsecured	4,295	42%	2,961	36%	2,229	36%
Total	10,350	100%	8,275	100%	6,136	100%

Loan Quality

The Bank has been continuing its de-risking efforts in the face of political, economic and regulatory challenges, thus bringing down the consolidated loan book from USD 8.3 billion in 2019 to USD 6.1 billion in 2020.

In order to estimate the collective and specific provisions requirements and report loan quality metrics, the Group relies on a comprehensive set of information related to each borrower. These include borrowers’ overall financial conditions, expected cash flow, available resources, payment history, and likelihood of support from financially reliable guarantors and, when applicable, the realisable value of collateral.

At Odea Bank, efforts to reduce the USD loan book as part of improving its balance sheet structure continued during 2020 by converting some maturing USD loans into Turkish Lira. In fact, the share of FX loans in the non-retail book dropped from 58.8% as at end-December 2019 to 49.6% as at end-December 2020.

The Group ensures that allocated provisions on its loan portfolio are fully in line with the estimated Expected Credit Loss (ECL) calculations as per the IFRS 9 standard, both for performing and non-performing portfolios. For non-consumer loans, the Group estimates ECL using a Probability of Default (PD) and Loss Given Default (LGD) approach.

For consumer loans, each product portfolio is collectively evaluated for impairment and the provision for loan losses is determined through a process that estimates the expected losses inherent in the portfolio based on historical delinquency flow rates and credit loss experience, including a forward-looking component.

The following table shows the Bank’s main asset quality indicators as at end-December 2020 as compared to end-December 2019 (restated):

LOAN QUALITY^(*)

(USD Million)	Dec-19	Dec-19 Restated	Dec-20	Change Dec-20/ Dec-19 Restated
Credit-impaired loans	1,529	1,350	1,098	-252
o.w. Corporate	1,273	1,135	874	-261
o.w. Retail	255	215	224	9
Net loans	10,350	8,275	6,136	-2,139
o.w. Corporate	8,121	6,695	5,087	-1,608
o.w. Retail	2,229	1,580	1,049	-531
Allowance for ECL Stage 3	936	823	607	-216
o.w. Corporate	723	639	447	-192
o.w. Retail	213	184	160	-24
Allowance for ECL Stages 1 & 2	368	336	431	95
o.w. Corporate	257	234	349	114
o.w. Retail	111	102	82	-19
Credit-impaired loans/Gross loans	13.12%	14.31%	15.31%	1.00%
o.w. Corporate	13.99%	15.00%	14.86%	-0.14%
o.w. Retail	10.01%	11.52%	17.37%	5.85%
Net credit-impaired loans/Gross loans	5.09%	5.58%	6.85%	1.27%
o.w. Corporate	6.05%	6.55%	7.26%	0.71%
o.w. Retail	1.67%	1.65%	4.97%	3.33%
Credit-impaired loans coverage	61.20%	60.98%	55.25%	-5.72%
o.w. Corporate	56.77%	56.30%	51.12%	-5.17%
o.w. Retail	83.32%	85.70%	71.36%	-14.34%
Allowance for ECL Stages 1 & 2/Net loans	3.56%	4.06%	7.02%	2.96%
o.w. Corporate	3.17%	3.50%	6.85%	3.35%
o.w. Retail	4.98%	6.43%	7.82%	1.40%

^(*) As per IFRS 9.

Credit-impaired loans or Stage 3 loans decreased by USD 252 million in 2020, reaching a total of USD 1,098 million. This was mainly driven by the sustainable efforts of recovery that occurred in both Turkey and Lebanon. Allowance for ECL Stage 3 substantially decreased by USD 216 million in 2020 in line with the reduction of the Stage 3 portfolio, thus resulting in a group credit-impaired coverage ratio of 55.3%, reaching 119% when including real guarantees.

At end-December 2020, credit-impaired loans represented 15.31% of gross loans, compared to 14.31% as at December 2019. This increase by 1.00% is mainly attributed to the substantial decrease of Stage 3 ECL (-26%), within a contraction of gross loans as at end-December 2020 versus end-December 2019 (24%).

The credit loss allowance for Stages 1 and 2 loans amounts to USD 431 million as at December 2020, representing 5.3% of consolidated net loans.

note that figures for end-December 2019 represent consolidated figures including Bank Audi (Egypt), Bank Audi sal – Jordan Branches and Bank Audi sal – Iraq Branches on a line-by-line basis. The contribution of those discontinued operations to consolidated liabilities and shareholders’ equity is included in “other liabilities” as at end-December 2020.

4.2.2. | FUNDING SOURCES

Funding sources of Bank Audi sal continue to be predominantly driven by private customers’ deposits.

The following table sets out the distribution of the Bank’s sources of funding as at end-December 2020 and as at end-December 2019. Please

BREAKDOWN OF LIABILITIES

(USD Million)	Dec-19		Dec-20	
	Vol.	%	Vol.	%
Bank deposits	4,810	12.1%	3,677	10.4%
Customers' deposits	29,594	74.9%	21,528	60.8%
Subordinated debt	797	2.0%	797	2.2%
Other liabilities	1,364	3.5%	6,478	18.3%
Shareholders' equity	2,970	7.5%	2,951	8.3%
Total liabilities & shareholders’ equity	39,535	100.0%	35,431	100.0%

As at end-December 2020, consolidated customers’ deposits of continued operations represented 60.8% of total liabilities and shareholders’ equity, making up for the largest source of funding followed by banks' deposits with a share of 10.4%, shareholders' equity with 8.3% and subordinated debt with 2.2%. The remaining 18.5% are accounted for by “other liability” that also includes the contribution of discontinued operations to consolidated assets, the latter rendering a distorted structural comparison with respect to last year’s end. As at end-December

2019, private customers’ deposits represented 74.9% of total liabilities and shareholders’ equity, banks’ deposits 12.1%, other liabilities 3.5%, subordinated debt with a share of 2.0% and shareholders’ equity 7.5%.

In the analysis that follows pertaining to the evolution of the funding classes in 2020, we will endeavour where possible to provide a comparison on equal basis.

4.2.2.1. Changes in Customers’ Deposits

Consolidated customers’ deposits (including related-party deposits) amounted to USD 21.5 billion at end-December 2020 as compared to USD 29.6 billion as at end-December 2019, decreasing by USD 8.1 billion during the year.The deconsolidation of entities in Egypt, Jordan and Iraq as end-December 2020 accounts for USD 4.9 billion of the said change, leaving USD 3.2 billion of decrease in deposits from continuing operations. Customers’ deposits of Lebanese entities decreased by USD 3.4 billion, an evolution resulting from the severe economic and financial crisis unraveling in Lebanon, while deposits of Odea Bank in

Turkey registered a contraction by USD 324 million and those of Bank Audi Qatar decreased by USD 49 million. On the other hand, deposits of entities operating in Europe increased by USD 538 million over the same period.

As at end-December 2020, 71.5% of consolidated customers’ deposits were sourced from Lebanese entities (including consolidation adjustments), 15.8% from Odea Bank, 12.1% from entities operating in Europe, and 0.6% from entities operating in the MENA region, as compared to 63.5%, 12.6%, 6.9%, and 17% respectively, as at end-December 2019.

Analysis of Customers’ Deposits by Business Segment

The following table sets out the breakdown of consolidated customers’ deposits over business segments as at end-December 2020 as compared

to end-December 2019. We have included for comparison on equal basis, a column highlighting the structure of deposits as at end-December 2019 excluding discontinued operations:

BREAKDOWN OF CUSTOMERS’ DEPOSITS BY SEGMENT

(USD Million)	Dec-19 ^(*)		Dec-19 ^(**)		Dec-20 ^(**)		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Deposits from customers	29,594	100.0%	24,737	100.0%	21,528	100.0%	-3,209	
Corporate & SME Banking	6,716	22.7%	5,217	21.1%	4,373	20.3%	-844	-0.8%
Retail & Personal Banking	21,729	73.4%	19,471	78.7%	17,126	79.6%	-2,345	0.9%
Public	1,149	3.9%	49	0.2%	29	0.1%	-20	-0.1%

^(*) Dec-19 Including Egypt, Jordan, Iraq.

^(**) Excluding Egypt, Jordan, Iraq.

In 2020, the decrease of customers' deposits is skewed towards Retail and Personal Banking deposits. The latter decreased by USD 2.3 billion during the year, from USD 19.5 billion as at end-December 2019 restated to USD 17.1 billion as at end-December 2020. Notwithstanding, their share in total customers' deposits was sustained at 79.6%.

Corporate and SME deposits also decreased by USD 0.8 million, from USD 5.2 billion as at end-December 2019 restated to 4.4 billion as at end-December 2020, accounting for 20.3% of total deposits as et end-December 2020 compared to 21.1% as at end-December 2019 (restated).

Analysis of Customers’ Deposits by Type

The following table sets out the Bank’s consolidated customers’ deposits by type as at end-December 2020 and as at end-December 2019. We

have included for comparison on equal basis, a column highlighting the structure of deposits as at end-December 2019 excluding discontinued operations:

BREAKDOWN OF CUSTOMERS' DEPOSITS BY TYPE

(USD Million)	Dec-19 ^(*)		Dec-19 ^(**)		Dec-20 ^(**)		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Deposits from customers	29,594	100.0%	24,737	100.0%	21,528	100.0%	-3,209	
Sight deposits	6,591	22.3%	5,160	20.9%	8,734	40.6%	3,574	19.7%
Time deposits	18,600	62.8%	16,421	66.4%	10,119	47.0%	-6,302	-19.4%
Saving accounts	2,796	9.4%	2,585	10.4%	2,429	11.3%	-156	0.9%
Certificates of deposits	907	3.1%	0	0.0%	0	0.0%	0	0.0%
Margin deposits	541	1.8%	447	1.8%	73	0.3%	-374	-1.5%
Others deposits	159	0.6%	124	0.5%	173	0.8%	49	0.3%

^(*) Dec-19 Including Egypt, Jordan, Iraq.

^(**) Excluding Egypt, Jordan, Iraq.

As at end-December 2020, the distribution of consolidated customers’ deposits over time and sight deposits remained skewed toward time deposits, albeit with a much lower share than it was at end-December 2019. The latter, which also include saving deposits and certificates of deposit, continued to account for the vast majority of total deposits with a share of 58.3%, compared to 76.8% as at end-December 2019 restated. Consolidated time deposits decreased by USD 6.5 billion during the year, from USD 19 billion as at end-December 2019 restated to USD 12.5 billion as at end-December 2020.

On the other hand, sight and short-term deposits stood at USD 8.7 billion as at end-December 2020, increasing from USD 5.2 billion as at end-December 2019 restated. This evolution underscores the low confidence level of depositors, the prevailing high uncertainties and the extremely low cost of deposits in Lebanon that has compelled some of those depositors to keep their savings in sight deposits awaiting a resolution of the current financial crisis.

Analysis of Customers’ Deposits by Maturity

The following table sets out the maturity profile of the Bank’s consolidated customers’ deposits as at end-December 2020 and as at end-December

2019. We have included for comparison on equal basis, a column highlighting the structure of deposits as at end-December 2019 excluding discontinued operations:

CUSTOMERS' DEPOSITS BY MATURITY

(USD Million)	Dec-19 ^(*)		Dec-19 ^(**)		Dec-20 ^(**)		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Less than 1 month	15,963	53.9%	15,102	61.1%	16,622	77.3%	1,520	16.2%
1-3 months	4,846	16.4%	3,532	14.3%	2,068	9.6%	-1,464	-4.7%
3-12 months	5,458	18.5%	4,416	17.8%	1,555	7.2%	-2,861	-10.6%
Less than 1 year	26,267	88.8%	23,050	93.2%	20,245	94.1%	-2,804	0.9%
1-5 years	3,243	11.0%	1,613	6.5%	1,260	5.8%	-353	-0.7%
Over 5 years	84	0.2%	74	0.3%	23	0.1%	-51	-0.2%
More than 1 year	3,327	11.2%	1,687	6.8%	1,283	5.9%	-404	-0.9%
Total	29,594	100.0%	24,737	100.0%	21,528	100.0%	-3,209	

^(*) Dec-19 Including Egypt, Jordan, Iraq.

^(**) Excluding Egypt, Jordan, Iraq.

In 2020, the share of customer’s deposits with maturities of less than one month in consolidated deposits rose from 53.9% as at end-December 2019 (61.1% excluding discontinued operations) to 77.3% as at end-December 2020. Although the Bank’s customers’ deposits have historically displayed behavioural stickiness across the past decades, whereby short-term deposits are typically rolled over following the expiry of their term, the informal capital controls in effect in Lebanon since October 2019 hamper in practice seriously any outbound

and even inbound outflows of deposits. The increase of the share of deposits with maturities less than 1 month also highlights the drivers of the aforementioned increase in sight deposits. At end-December 2020, 94.1% of consolidated customers’ deposits had maturities of less than 1 year (compared to 93.2% as at end-December 2019 when excluding discontinued operations), while the remaining 5.9% were deposits with maturities between 1 and 5 years.

Analysis of Customers’ Deposits by Currency

The following table sets out the distribution of the Bank’s customers’ deposits by currency as at end-December 2020 as compared to

end-December 2019. We have included for comparison on equal basis, a column highlighting the structure of deposits as at end-December 2019 excluding discontinued operations:

BREAKDOWN OF CUSTOMERS' DEPOSITS BY CURRENCY

(USD Million)	Dec-19 ^(*)		Dec-19 ^(**)		Dec-20 ^(**)		Change	
	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Lebanese Pound	3,732	12.6%	3,732	15.1%	2,799	13.0%	-933	-2.1%
US Dollars	17,410	58.8%	16,524	66.8%	14,954	69.5%	-1,570	2.7%
Turkish Lira	1,344	4.5%	1,343	5.4%	1,067	4.9%	-276	-0.5%
Euro	2,633	8.9%	2,582	10.4%	2,068	9.6%	-514	-0.8%
Egyptian Pound	3,401	11.5%	0	0.0%	0	0.0%	0	0.0%
Other currencies	1,074	3.7%	556	2.3%	640	3.0%	84	0.7%
Total	29,594	100.0%	24,737	100.0%	21,528	100.0%	-3,209	

^(*) Dec-19 Including Egypt, Jordan, Iraq.

^(**) Excluding Egypt, Jordan, Iraq.

Customers’ deposits denominated in US Dollars continued to comprise the bulk of consolidated deposits as at end-December 2020 and 2019. Deposits denominated in Euros accounted for 9.6% of total deposits as at end-December 2020 as compared to 10.4% as at end-December 2019 excluding discontinued operations, while the share of deposits

denominated in Turkish Lira decreased by 0.5% to 4.9% of total deposits as at end-December 2020, from 5.4% as at end-December 2019 excluding discontinued operations, reflecting a decrease in deposits by USD 3.2 billion.

4.2.2.2. Subordinated Debt

As at end-December 2020, the Bank continued to have four unsecured subordinated loans of an aggregate amount of USD 797 million (including USD 15 million accruals), or 3.7% of consolidated customers’ deposits and 2.3% of total liabilities and shareholders’ equity. Below is a detailed description of those loans:

On 31 October 2014, the Bank extended a subordinated loan to Odea Bank, its wholly-owned subsidiary in Turkey, amounting to USD 150 million, bearing an interest rate of 6.5% and maturing on 30 September 2024. In accordance with applicable BRSA regulations, this loan was treated as Tier 2 capital of Odea Bank; it was eliminated on a consolidated level, along with other intra-group adjustments. In the first half of 2015, the Bank securitised this loan (through the issuance of certificates of participation) with third party investors subscribing for USD 138 million (accounted for as consolidated Tier 2 equity in accordance with applicable regulations). Bank Audi Egypt subscribed for USD 8 million and Audi Capital (KSA) subscribed for USD 4 million. On 1 August 2017, Odea Bank issued its USD 300 million 7.625% notes due in 2027, which are Basel III compliant, replacing the USD 150 million subordinated loan extended by the Bank to Odea Bank. As of 31 December 2019, USD 17 million of this sub debt was bought back while Odea Bank A.Ş. has not redeemed or cancelled the shares in circulation. Thus selling back any portion of such amount at any time is completely at Management’s discretion.

On 27 March 2014, the Bank entered into subordinated loans with the IFC and the IFC Capitalisation Fund in an aggregate amount of USD 150 million. The repayment date for the loans is 11 April 2024, subject to early redemption or acceleration (which is, in turn, subject to Central Bank approval). The loans bear interest at a rate of 6.55% over six-month LIBOR and certain fees are payable, in each case, on a bi-annual basis, subject to the availability of free profits in accordance with the Central Bank’s Basic Circular 6830, as applicable at the time of entry into the loans. In lights of the severity of the Crisis in Lebanon and its effect on the Group’s offshore

liquidity, the Bank has suspended payment of the obligations under this agreement and is currently in discussion with lenders of the Bank to agree on a payment rescheduling for the Bank’s obligations over the medium term.

In September 2013, the Bank issued USD 350 million of subordinated unsecured bonds. The repayment date for the bonds is 16 October 2023, subject to early redemption or acceleration. The bonds carry an annual interest rate of 6.75% payable on a quarterly basis, and are subject to the same conditions as mentioned above. During 2019, the Bank acquired notes with a notional amount of USD 3.3 million for a total consideration of USD 2.6 million. This transaction resulted in a gain of LBP 985 million, leaving an outstanding sub debt amount of USD 347 million. During 2020, the Bank acquired notes for a total consideration of USD 2 million, while the outstanding debt reached USD 345 million. In its meeting held on 12 February 2021, the Ordinary General Assembly, pursuant to a recommendation of the Board of Directors, resolved to proceed with the issuance of new unsecured subordinated notes, the 2021 Subordinated Notes, to be subscribed to, exclusively, through the exchange of the 2013 Subordinated Notes. Such decision was made in consideration of the advantageous conditions for the Bank (notably the submission of the 2021 Subordinated Notes to Lebanese laws compared to English law for the 2013 notes; the local payment of principal and interest; and their extended maturity) within the offering of adequate incentive for the holders of the 2013 Subordinated Notes (notably a commission equivalent to the missed interest on the 2013 Subordinated Notes), in addition to an up-front interest payment of circa 20% (payable upon the exchange of the 2013 Subordinated Notes for the 2021 Subordinated Notes), and an interest rate of circa 5% p.a., all payable locally).

The above two issuances are accounted for as regulatory Tier 2 capital (see Note 35 to the 2020 financial statements for further details on the repayment of those notes).

4.2.2.3. Shareholders’ Equity

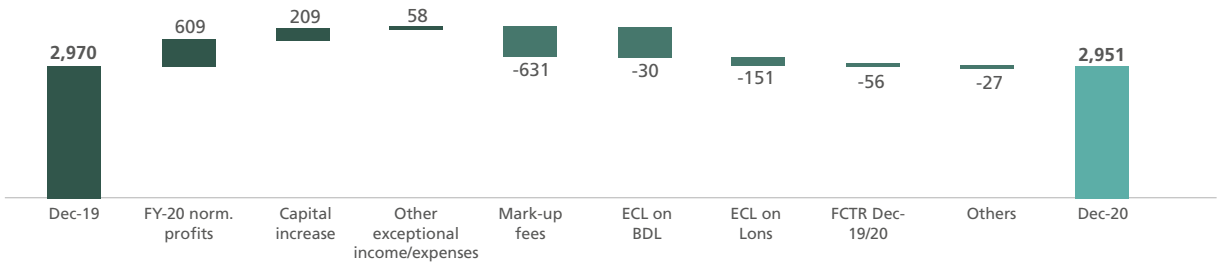
In 2020, the Bank’s consolidated shareholders’ equity remained relatively stable, reaching USD 2,951 million as at end-December 2020, almost the same level as at end-December 2019. Owed to a contraction of consolidated assets by 10% over the year, the ratio of shareholders’ equity to total assets improved from 7.5% as at end-December 2019 to 8.3% as at end-December 2020. At the same date, total shareholders’ equity comprised USD 2,240 million of common equity group share, in addition to USD 600 million of preferred equity and USD 111 million of

minority shares. This is compared to USD 2,239 million, USD 600 million and USD 131 million respectively, as at end-December 2019.

Although, the outstanding volume remains relatively stable, the movement in shareholders’ equity during the year 2020 reflects on the one hand the impact of the Lebanese Crisis, in addition to the remedial measures undertaken this far by the Group, as clearly highlighted in the chart below:

EVOLUTION OF SHAREHOLDERS’ EQUITY IN 2020

(USD Million)



As at end- December 2020, the Bank’s share capital amounts to USD 659 million, of which USD 652 of common capital and USD 6.6 million of preferred capital, compared to USD 449 million as at end-December 2019, of which USD 443 million of common capital.

In implementation of the regulatory requirement of the Central Bank of Lebanon in Intermediary Circular 567 requiring banks operating in Lebanon to raise their capital, the Extraordinary General Assemblies of shareholders of Bank Audi sal convened on 20 February 2020 and 6 March 2020, and approved USD-denominated cash contributions from the Bank’s shareholders in an amount of USD 209 million, through the issuance of 189 million common shares at the price of USD 1.11 per common share.

Capital Adequacy

In response to the events in Lebanon, the Central Bank of Lebanon issued a number of successive regulatory directives which significantly impacted the Bank’s capital adequacy ratios. These include most notably:

- In September 2019, BdL Intermediary Circular 527 assigned 150% risk weights on Lebanese securities exposures (excluding BdL) and resident corporate loans among others, while regulating shortfall in capital conservation buffer and barring dividend distribution.
- On 3 February 2020, Intermediary Circular 567 tripled risk weights on US dollar exposures with the BdL of more than one year from 50% to 150%, and lowered the minimum capital ratios to 7.0% for CET1 (including 2.5% conservation buffer) and 10.5% for total capital ratios, in alignment with the Basel minima.
- On 26 August 2020, the Central Bank of Lebanon issued Intermediary Circular 567 requesting banks operating in Lebanon to (i) increase the regulatory capital through contributions in foreign currencies,

As a result, the common share capital evolved to represent 588,538,215 common shares (BSE: AUDI) as at end-December 2020 (compared to 399,749,204 as at end-December 2019), each with a nominal value of LBP 1,670, of which 119,639,761 were represented by Global Depositary Receipts listed on the Beirut Stock Exchange (BSE: AUSR).

The USD 600 million of preferred equity represent 3 series as follows: Series “H” comprising of 750,000, Series “I” comprising of 2,500,000 shares, and Series “J” comprising of 2,750,000, all having a par value of USD 100 per share. The terms of the Series “I” and “J” preferred shares include a loss absorption clause whereby a trigger event (capital adequacy or non-viability event) could result in the mandatory conversion of those preferred shares to common shares at a ratio of 15 common shares for each preferred shares. Such conversion would increase common shares by 78,750,000 shares.

in an amount equivalent to 20% of the Common Equity Tier 1 as at 31 December 2018 before 31 December 2020 (a capital enhancement measure to be achieved by all banks in Lebanon regardless of whether or not their capital levels are adequate), and (ii) to cover the capital shortfall, if any, to meet the minimum required regulatory capital ratios as determined by the circulars of the Central Bank of Lebanon.

In accordance with Central Bank of Lebanon Intermediary Circular 567, the amount of the capital increase required for the Bank is USD 622 million. On 18 February 2021, the Bank submitted to the regulator the measures taken in this respect, which entail:

- Issuance of common shares for USD 209 million (Note 38).
- Dividends distributed by foreign entities of USD 110 million, of which USD 30 million in fresh dollars.
- Proceeds from the sale of the Bank’s Egyptian subsidiary, investment in Bank Audi Syria, and Jordanian and Iraqi operations up to USD 306 million, of which USD 291 million in fresh dollars.

In 2020, the regulatory capital of the Bank increased by USD 439 million from USD 3,317 million as at end-December 2019 to USD 3,756 million as at end-December 2020, of which USD 2,679 million of CET1 capital, USD 617 million of additional Tier 1 capital and USD 460 million of Tier 2 regulatory capital. Consolidated CET1 increased by USD 738 million, offset by a decrease in Tier 2 capital by USD 299 million, justified principally by the amortisation of the 2013 subordinated notes issued in Lebanon.

In parallel, following a decrease in consolidated assets, consolidated risk-weighted assets contracted from USD 29.4 billion as at end-December 2019 to USD28.6 billion as at end-December 2020, an evolution justified principally by the active de-risking adopted in Lebanon. Notwithstanding owing to a faster contraction in consolidated assets in parallel with a change in weighting parameters for certain asset classes, risk-weighted assets’ density (calculated by dividing risk weighted assets over assets) increased from 74.3% as at end-December 2019 to 80.77% as at end-December 2020.

The Bank’s capital adequacy ratio stood at 13.1% as at end-December 2020, as compared to 11.3% as at end-December 2019, in each case above the regulatory minimum ratio imposed by the Central Bank of Lebanon as set forth above. The Bank’s Common Equity Tier 1 ratio was above the regulatory minimum at 9.4% as at end-December 2020 compared to 6.6% as at end-December 2019. Additional Tier 1 capital, being primarily the ratio of preferred capital to risk-weighted assets, was 2.2% as at end-December 2020 as compared to 2.1% as at end-December 2019, while Tier 2 capital achieved 1.6% as compared to 2.6% as at end-December 2019.

On a proforma basis, the sale of foreign operations would drive a further improvement in CET1 and total capital adequacy ratio, reaching respectively 10.2% and 14.3% on a proforma basis as at end-December 2020, compared to regulatory requirements of respectively 4.5% and 8%.

The following table sets out the Bank’s capital adequacy ratios as at end-December 2020 and end-December 2019:

CAPITAL ADEQUACY RATIO

(USD Million)	Dec-19	Dec-20	Deconso.	Dec-20 ^(*)	Change Dec 20/19
Risk-weighted assets	29,356	28,619	2,544	26,075	-737
o.w. Credit risk	26,285	24,927			-1,358
o.w. Market risk	525	1,572			1,047
o.w. Operational risk	2,546	2,120			-426
Tier 1 capital	2,558	3,296	-12	3,284	738
o.w. Common Tier 1	1,941	2,679	-12	2,667	738
Tier 2 capital	759	460	-3	457	-299
Total regulatory capital	3,317	3,756	-15	3,741	439
Common Tier 1 ratio	6.6%	9.4%		10.2%	2.7%
+ Additional Tier 1 ratio	2.1%	2.2%		2.4%	0.1%
= Tier 1 ratio	8.7%	11.5%		12.6%	2.8%
Tier 2 ratio	2.6%	1.6%		1.8%	-1.0%
Total ratio	11.3%	13.1%		14.3%	1.8%
Minimum capital requirements^(**)					
Common Tier 1 ratio	7.00%	4.50%		4.50%	
+ Additional Tier 1 ratio	1.50%	1.50%		1.50%	
= Tier 1 ratio	8.50%	6.00%		6.00%	
Tier 2 ratio	2.00%	2.00%		2.00%	
Total capital ratio	10.50%	8.00%		8.00%	

^(*) December 2020 after deconsolidation.

^(**) BdL IC 567 changed the computation of regulatory ratios in 2020-onwards. Waiver on capital conservation buffer of 2.5% for 20 and 21 before progressively reinstating it.

As mentioned throughout this discussion, in particular in the section entitled “Recent Developments”, Bank Audi Management exerted in 2020 extended efforts to consolidate its financial position and reinforce its financial standing, among which the sale of its foreign entities in each of Jordan, Iraq and Egypt. The Bank entered, in December 2020, into definitive agreements for the sale of its branch networks in Jordan and Iraq, and in January 2021, for the sale of its fully owned subsidiary in Egypt. The sale of the entities in Jordan and Iraq was completed in March

2021, while the completion of the sale of Bank Audi Egypt is expected to occur in the second quarter of 2021, subject to the satisfaction of customary conditions. The deconsolidation of these entities would decrease risk-weighted assets by USD 2.5 billion, reaching USD 26.1 billion, driving an improvement in all components of the capital adequacy ratio. On a pro-forma basis, the Bank’s CET1 and Tier 1 ratios would reach 10.2% and 12.6% respectively, while the total capital adequacy ratio is expected to stand at 14.3%.

4.3. | RESULTS OF OPERATIONS

In 2020, Bank Audi reported a loss of USD 145 million compared to a net loss of USD 602 million in 2019.

In light of the prevailing uncertainties and challenges in Lebanon for more than sixteen months now and the failure to reach a clear and definitive final plan for a financial and economic recovery, it remains very difficult for the Bank’s Management to estimate the impact of the Lebanese

crisis on the Bank’s financial statements. Notwithstanding, the Bank undertook in 2019 and 2020 a number of remedial measures which were translated in the income statements as one-off flows, reaching USD 1.1 billion in 2019 and USD 754 million in 2020. Adjusted to those flows tied to the crisis, consolidated net profits of Bank Audi would have moved from USD 489 million in 2019 to USD 609 million in 2020, representing an increase by USD 120 million or 24%.

The table below sets out the evolution of the Bank’s consolidated results in 2020 compared to 2019 while showcasing one-off flows tied to the crisis and the results of discontinued operations

SUMMARISED NORMALISED CONSOLIDATED INCOME STATEMENT

(USD Million)	2019	2019 Norm. Restated ⁽¹⁾	2020	Normalised YOY 2020/2019 Restated	
Interest income ⁽¹⁾	1,130	925	884	-41	-4%
Net of new taxes on financial investments	156	156	180	24	15%
Non-interest income	240	192	150	-42	-22%
Total income	1,370	1,117	1,034	-83	-7%
Operating expenses	610	511	457	-54	-10%
Credit expense	148	123	37	-86	-70%
Income tax	124	90	21	-69	-77%
Total expenses	882	724	515	-209	-29%
Net profits after tax (normalised from operations)	489	394	519	125	32%
Results of discontinued operations		96	90	-6	-6%
Net profits after discontinued operations	489	489	609	120	24%
+ Crisis-related one-offs	-1,091	-1,091	-754	337	-31%
= Net profit after tax and one-offs	-602	-602	-145	457	-76%

⁽¹⁾ Includes interest revenues from financial assets at FVTPL.

⁽²⁾ 2019 normalised and restated (excluding Egypt, Jordan, Iraq).

In 2020, the one-offs flows principally relate to USD 631 million of net commissions paid to depositors of fresh funds benefiting from the multiplier factor (please refer to section entitled “Changes in Primary Liquidity”), with the remainder accounted mainly by loan loss allowances. In 2019, those relate principally to USD 701 million of loss allowances taken on the Group’s exposure to Lebanese sovereign Eurobonds, as well as financial assets placed at the Central Bank of Lebanon, and to USD 410 million of loss allowances on loans.

By geography, excluding one-off flows, the USD 609 million of consolidated net profits is broken down over a contribution to net profits of entities operating in Lebanon by USD 469 million amid a contribution of Private Banking entities by USD 23.9 million, Odea Bank by USD 9.1 million, and other entities (mainly Bank Audi France and Bank Audi Qatar) by USD 17.3 million, while the contribution of discontinued operations (Egypt, Jordan and Iraq) reached USD 89.6 million.

The analysis that follows focuses on the flows leading to the normalised net profits from operations, excluding the crisis related one-offs discussed above and net profits from discontinued operations.

The USD 125 million increase in the Group’s normalised net profits resulted predominantly from cost savings by USD 209 million (i.e. a contraction by 29%), totally offsetting the drop in total income by USD 83 million (i.e. a contraction by 7%).

The decline in total income is broken down over a decrease in interest income net of withholding tax of USD 41 million, with a contraction in non-interest income generation by USD 42 million during the year.

Interest Income

Consolidated net interest income decreased from USD 925 million in 2019 to USD 884 million in 2020, representing 85.5% of total income, as compared to 82.8% last year.

Net interest income generation of Bank Audi during the year was impacted by the sluggish and subdued economic environments in the various countries of presence of the Group due to the crisis, and

Non-interest Income

Consolidated non-interest income decreased from USD 192 million in 2019 to USD 150 million in 2020, corresponding to a contraction by 22%. This contraction by USD 42 million is predominantly accounted for by lower net commissions, coupled with less income from financial operations and other operating income generation.

In parallel, the decrease in consolidated net fees and commissions in 2020 relative to 2019 is principally justified by a lower credit volume and trade

Cost of Credit

In 2020, Management allocated consolidated credit cost of USD 174.2 million, of which USD 143.7 million in Lebanese entities and USD 30.5 million in entities operating outside Lebanon. Excluding the credit expense tied to the Crisis, Bank Audi would have allocated consolidated credit cost of USD 37 million in 2020 as compared to USD 123 million in 2019. The USD 137 million differential underscores Management’s proactive measures taken at the outset of the Crisis in 2019 to maintain adequate cover for the various IFRS9 stages, particularly at the level of the loan portfolio, but also to increase coverage on BdL exposures as much as possible. As at the date of this report, Bank Audi has USD 105 million of general provisions,

exacerbated by the outbreak of the COVID-19 pandemic, as well as by the significant deleveraging policy adopted by the Group and translating in a significant contraction of the various asset classes. Accordingly, the decrease in net interest income was mainly due to quantity effect, with consolidated average assets contracting by 9.4% from USD 40.9 billion in 2019 to USD 37.1 billion in 2020, within an increase in average spread by 12 basis points from 2.26% (using normalised restated 2019 figures) to 2.38% respectively over the same period.

activities in Lebanon as a result of the crisis and the COVID-19 spillovers, with the latter also affecting these activities across entities.

Net commissions, excluding one-off flows, represented 0.3% of average assets in 2020, nearly at same level of 2019. In parallel, non-interest income, excluding one-off flows, accounted for 0.40% of average assets in 2020 as compared to 0.47% of average assets in 2019.

which can also be used to cover any additional provision requirements on the loan portfolio in Lebanon, although, with everything else being equal, Management does not foresee significant additional net credit expense on the loan portfolio of entities operating in Lebanon over the short term. The USD 30.5 million of credit loss allowances booked in foreign entities are broken down over USD 33.7 million allocation in Odea Bank, along with USD 0.2 million allocation in Audi Capital (KSA) within net provision releases of USD 2.7 million in Bank Audi France and USD 0.8 million in Banque Audi (Suisse) SA.

Total Operating Expenses

Consolidated general operating expenses decreased year-on-year by USD 54 million, from USD 511 million in 2019 to USD 457 million in 2020. Following the explosion of the Beirut port on 4 August 2020, the Group’s head offices situated within the area were badly hit and 2 branches were completely destroyed. The one-off cost related to the port explosion was limited to USD 1.3 million of staff expenses in Lebanon considered as social aid for employees impacted by this blast. One-off costs included under “other operating expenses” in Lebanon reached USD 17.8 million, of which USD 8.8 million of donations, USD 7.5 million related to assets acquired against settlement of debt and USD 1.5 million others.

In Odea Bank, USD 3.9 million of tax related to Republic of Lebanon Eurobonds sale were incurred in 2020. Excluding the aforementioned one-offs, cost savings achieved in 2020 would have amounted to USD 127 million (including divested entities).

Indeed, during 2020, Management continued to enforce across entities a rigorous cost control policy encompassing a continued freeze on

recruitment except for critical needs. In Lebanon, the cost rationalisation plan covered principally:

- Staff expenses facilitated by voluntary exit of staff and capping cost;
- Cutting IT investments and related licenses;
- Consolidation of local operations and merging of domestic entities;
- Reduction of the branch-network size with temporary closure of selected branches. Relocation of employees to other branches/services;
- Conversion of foreign payments related to some operating expenses into local ones. It is worth noting that 89% of the Bank’s operating expenses are denominated in LBP, while 8% are in local dollars and 3% in fresh dollars.

Management exerted significant efforts to improve operational efficiency by completing the consolidation of Lebanese operations through merging of both Audi Private Bank sal and Audi Investment Bank sal under Bank Audi sal.

Income Tax

Consolidated income taxes from normalised continuing operations achieved a mere USD 21 million in 2020 as compared to USD 90 million in 2019, decreasing by USD 69 million. Tax savings are justified by tax relief benefits from previous year losses in Lebanon. Consequently, no tax costs were incurred in Bank Audi sal (Lebanon) on recurring income.

Nevertheless, the Bank booked in 2020 a one-off tax charge of USD 46.2 million as per the directive set by 2020 budget law which was calculated based on 2% of 2019 operating income.

Results from Discontinued Operations

In consideration of the sustained uncertainties tied to Lebanon’s economic and financial outlook, and of the resulting focus by the Bank on its domestic Lebanese franchise, and of its objective to reinforce its role in facing the considerable challenges Lebanon has been exposed to, Bank Audi’ Management explored and implemented strategic options available to it, including the sale of its foreign entities. On 29 December 2020, Bank Audi entered into definitive agreements with Capital Bank of Jordan and National Bank of Iraq – a subsidiary of Capital Bank – for the sale of the assets and liabilities of Bank Audi Jordan Branch Network and Bank Audi Iraq Branch Network, respectively. The completion of these transactions occurred in March 2021. On 20 January 2021, Bank Audi also entered into a definitive agreement with First Abu Dhabi Bank for the sale of its wholly owned subsidiary in Egypt, Bank Audi sae, with the transaction expected to be completed in the second quarter of 2020. As per applicable accounting rules, these entities were treated as discontinued operations and the results of their operations were booked under “net profits/loss from discontinued operations”.

In addition, Management, aiming at improving operational efficiency, completed in December 2020 the consolidation of Lebanese entities through merging Audi Private Bank sal and Audi Investment Bank sal under Bank Audi sal.

In 2020, these aforementioned operations generated USD 66.5 million of net profits, principally from Bank Audi Egypt achieving USD 80.7 million of net profits, followed by Bank Audi Jordan Network achieving USD 6.4 million and Bank Audi Iraq Network achieving USD 2.6 million, coupled with impairment loss of USD 23.1 million.

In 2019, results of those operations aggregated to USD 95.8 million, broken down over USD 83.9 million from Bank Audi Egypt, USD 11.3 million for Bank Audi Jordan Network, USD 0.6 million from Bank Audi Iraq Network, and USD 14.6 million from Audi Investment Bank, while Audi Private Bank booked a loss by USD 18.5 million (although the latter entities were merged and not discontinued).

Components of ROAA and ROAE

The Bank’s profitability ratios in 2020 continued to be distorted by the magnitude of the one-off flows. A dupont analysis at consolidated level, excluding the one-off flows and discontinued operation, reveals that the return on average assets stood at 1.40% as at end-December 2020

compared to 1.19% as at end-December 2019. In turn, net common income represented 21.7% of average common equity compared to 15.2% as at end-December 2019. The table below sets a breakdown of key performance indicators in 2020 and 2019:

KEY PERFORMANCE METRICS

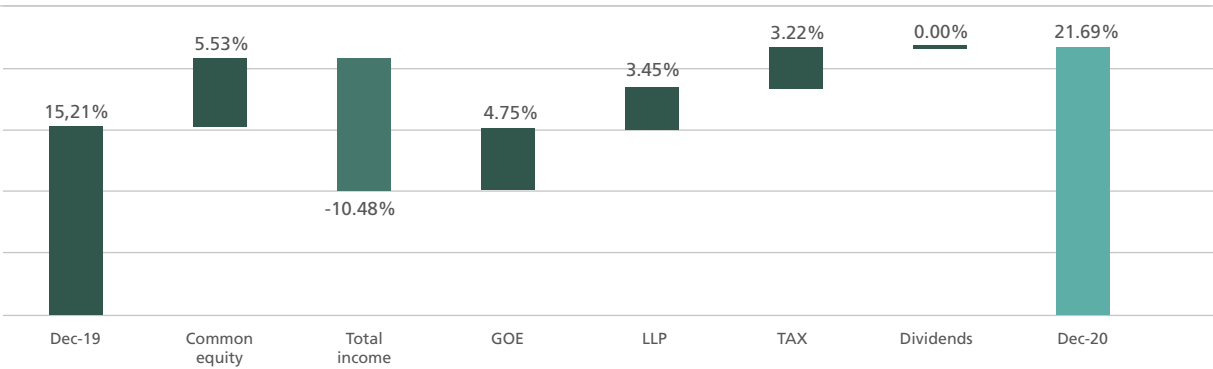
	2019 ^(*)	2019 ^(**)	2020 ^(**)	Change
Spread	2.76%	2.26%	2.38%	-0.38%
+ Non-interest income/AA	0.59%	0.47%	0.40%	-0.19%
= Asset utilisation	3.35%	2.73%	2.79%	-0.56%
X Net operating margin	35.67%	35.23%	50.23%	14.56%
<i>o.w. Cost to income</i>	44.49%	45.72%	44.22%	-0.27%
<i>o.w. Provisions</i>	10.79%	10.98%	3.57%	-7.22%
<i>o.w. Tax cost</i>	9.05%	8.07%	1.98%	-7.07%
= ROAA	1.19%	0.96%	1.40%	0.21%
X Leverage	10.73	10.73	12.39	1.66
= ROAE	12.81%	10.32%	17.34%	4.53%
ROACE	15.21%	12.25%	21.69%	6.48%

^(*) Normalised.

^(**) Normalised and excluding Egypt, Jordan, Iraq.

The chart below details the contribution of the various components to the movement in the return on average common equity ratio in 2020:

EVOLUTION OF ROACE IN 2020

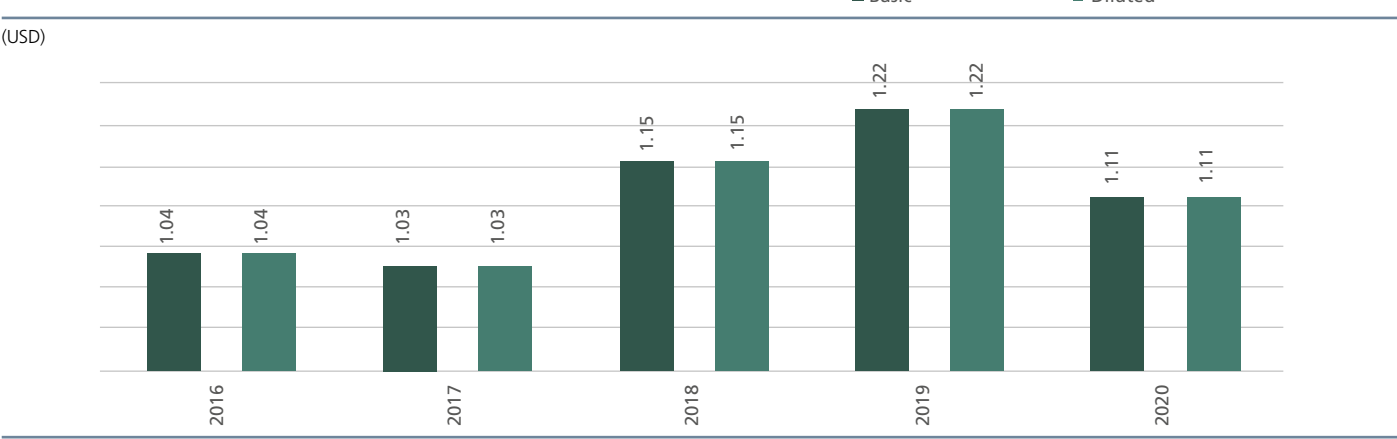


Earnings per Common Share and Common Book per Share

Owing to the net loss realised in 2019 and 2020, “basic earnings per common share” is in the negative territory reaching USD -0.27 in 2020, improving from USD -1.52 in 2019. Adjusting to the exceptional flows registered across the 2 years, basic earnings per share would have reached USD 1.11 in 2020 (of which USD 0.94 when excluding operations held for sale in each of Egypt, Jordan and Iraq) compared to USD 1.22 in 2019 (of which USD 0.98 when excluding operations held for sale in each of Egypt, Jordan, and Iraq).

“Basic earnings per common share” is calculated based on the weighted number of common shares in issue over the period and net profits after tax. For comparison on equal basis, we exclude from the calculation net profits from discontinued operations in 2017, as well as the exceptional flows in 2019 and 2020.

EARNINGS PER COMMON SHARE GROWTH



The table below sets out the common book per share as at end-December 2020 as compared to end-December 2019:

EQUITY METRICS

(USD Million)	Dec-19	Dec-20	Change	Percent
Shareholders' equity	2,970	2,951	-19	-0.6%
- Minority shares	131	111	-20	-15.1%
= Shareholders' equity group share	2,839	2,840	1	0.0%
- Preferred stock (including dividends)	600	600	0	0.0%
= Common shareholders' equity	2,239	2,240	1	0.0%
Weighted average of outstanding shares (net of Treasury stock)	398,577	545,069	146,492	36.8%
Common book per share (USD)	5.62	4.11	-1.51	-26.8%
Share price at end-December (USD)	3.50	1.22	-2.28	-65.1%
P/Common book	0.62	0.30	-0.32	-51.61%

The common book per share decreased from USD 5.62 as at end-December 2019 to USD 4.11 as at end-December 2020, mainly as a result of the 47% increase in the outstanding number of common

shares because of the issuance of USD 209 million of new capital from 399,749,204 as at end-December 2019 to 588,538,215 as at end-December 2020.

4.4. | RESULTS ACROSS MAIN DEVELOPMENT PILLARS

Bank Audi Group is a leading Lebanese banking group with continuing operations in Lebanon and Turkey, in addition to a number of entities grouped under the Private Banking business line. In 2020, and as mentioned earlier in this discussion, Management placed in discontinued operations its entities in Egypt, Jordan and Iraq because of the imminent completion of their sale. Subsequently, the assets and liabilities of those

entities are aggregated respectively under “assets held for sale” and “liabilities held for sale” in the financial position statement. In the income statement, the net profits generated by those operations is booked under “results from discontinued operations”. Consolidated activity and results in 2020 were principally driven by all those constituents.

The table below sets out the contribution of each those entities as at end-December 2020 as compared to end-December 2019. For comparison on equal basis, the assets, deposits, loans and net results of

Audi Private Bank which was merged under Bank Audi sal in 2020 are included in 2019 under Lebanese entities:

(USD Million)	Dec-19		Dec-20		Change Dec-20/19	
	Volume	Share in Total	Volume	Share in Total	Volume	%
ASSETS						
Lebanese entities	28,217	71.4%	22,277	62.8%	-5,940	-21.1%
Turkey	5,551	14.0%	5,448	15.4%	-103	-1.8%
Private Banking entities	1,776	4.5%	2,146	6.1%	370	20.8%
Other entities	1,518	3.8%	1,494	4.2%	-24	-1.6%
Entities held for sale	5,962	15.1%	6,435	18.2%	473	7.9%
Consolidation adjustments	-3,489	-8.8%	-2,369	-6.7%	1,120	-32.1%
Total	39,535	100.0%	35,431	100.0%	-4,104	-10.4%
DEPOSITS						
Lebanese entities	18,894	63.8%	15,596	72.4%	-3,298	-17.5%
Turkey	3,718	12.6%	3,394	15.8%	-324	-8.7%
Private Banking entities	1,281	4.3%	1,693	7.9%	412	32.2%
Other entities	960	3.2%	1,036	4.8%	76	7.9%
Entities held for sale	4,857	16.4%	0	0.0%	-4,857	-100.0%
Consolidation adjustments	-116	-0.3%	-191	-0.9%	-75	64.0%
Total	29,594	100.0%	21,528	100.0%	-8,066	-27.3%
LOANS						
Lebanese entities	4,166	40.2%	2,617	42.6%	-1,549	-37.2%
Turkey	2,776	26.8%	2,507	40.9%	-269	-9.7%
Private Banking entities	803	7.8%	600	9.8%	-203	-25.2%
Other entities	595	5.8%	480	7.8%	-115	-19.4%
Entities held for sale	2,075	20.0%	0	0.0%	-2,075	-100.0%
Consolidation adjustments	-65	-0.6%	-68	-1.1%	-3	4.4%
Total	10,350	100.0%	6,136	100.0%	-4,214	-40.7%

Net earnings		FY-2019		FY-2020		Change	
(USD Million)		Volume	Share in Total	Volume	Share in Total	Volume	%
Lebanese entities		-713	118.4%	-286	197.4%	427	-59.9%
Turkey		13	-2.1%	13	-8.8%	0	0.7%
Private Banking entities		10	-1.7%	21	-14.8%	11	108.6%
Other entities		-8	1.3%	17	-11.9%	25	-317.5%
Entities held for sale		96	-15.9%	90	-61.9%	-6	-6.4%
Total		-602	100.0%	-145	100.0%	457	-76.0%

What follows is a brief discussion of the overall growth trends across other main constituents of the Group:

4.4.1. | LEBANESE ENTITIES

Activity Evolution in Entities Operating in Lebanon

Total assets of entities operating in Lebanon (including consolidation adjustments) decreased by USD 4.8 billion in 2020, driven by a decrease in customers’ deposits by USD 3.4 billion within a net contraction of loans booked in those entities by USD 1.6 billion, with the remaining decrease attributed to the exposure to the Central Bank of Lebanon and the Lebanese sovereign.

Within the adopted consolidation strategy, Management is focusing in priority on maintaining and strengthening the relationships with clients having external sources of income. These include customers with business operations that generate sustainable inflow of fresh funds, be it international firms or locally incorporated firms with substantial offshore revenues.

By currency, the USD 3.4 billion decrease in deposits is broken down over a decrease by USD 2.5 billion in deposits denominated in foreign currencies and USD 0.9 billion in deposits denominated in LBP. In parallel, the decrease in net loans by USD 1.6 billion is driven by loans denominated in foreign currencies, contracting by USD 1.9 billion, totally offsetting the increase in loans denominated in LBP by USD 0.3 billion. Corporate customers accounted for 48% of the decrease in net loans of Bank Audi in Lebanon in 2020, while commercial and SME loans accounted for 18% and retail loans for 34%.

Outstanding LCs and LGs (including consolidated adjustments) stood at USD 326 million as at end-December 2020, compared to USD 637 million as at end-December 2019, underscoring the impact of the severe economic crisis in the country exacerbated by the COVID-19 pandemic. Outstanding letters of credit stood at a mere USD 21 million as at end-December 2020 compared to USD 298 million a year ago, while outstanding letter of guarantees reached USD 305 million compared to 340 million as at end-December 2019.

Entities operating in Lebanon faced challenging economic and operating conditions translating in high uncertainties and impacting negatively loan quality. Stage 3 loans decreased from USD 862 million as at end-December 2019 to USD 758 million, corresponding to a decrease by USD 104 million. The latter is explained by the transfer to “off-balance sheet” of loans aggregating to USD 259 million within a real increase in Stage 3 loans by USD 155 million. In relative terms, the Stage 3 ratio deteriorated from 17.5% as at end-December 2019 to 22.5% as at end-December 2020, with the deterioration attributed to a size effect as credit-impaired loans contracted by 12% over the period. In parallel, provision coverage on those loans slightly contracted from 65.4% as at end-December 2019 to 61.4% as at end-December 2020.

(USD Million)	Dec-19	Dec-19 ^(*)	Dec-20 ^(*)	Change Dec-20 ^(*) / Dec-19 ^(*)
Balance sheet data				
Assets	27,379	28,217	22,277	-5,940
Deposits	18,190	18,894	15,596	-3,298
Loans	4,088	4,166	2,617	-1,549
Equity	2,947	3,051	2,640	-411
Outstanding LCs + LGs	1,021	1,024	462	-562
Earnings data				
	2019	2019^(*)	2020^(*)	Change
Net interest income	671.1	707.8	729.3	21.5
+ Non-interest income	24.5	39.5	-477.9	-517.4
Total income	695.6	747.3	251.4	-495.9
General operating expenses	312.4	330.1	313.5	-16.6
= Operating profits	383.2	417.1	-62.1	-479.2
Loan loss provision charge	1065.6	1118.1	143.7	-974.4
- Income tax	11.9	11.9	56.9	45.0
Net profits	-694.3	-712.9	-262.7	450.2
Spread	2.3%	2.4%	2.9%	0.5%
ROAA	-2.4%	-2.4%	-1.0%	1.4%

^(*) Including APB after merging their business operations with Bank Audi sal.

In 2020, Lebanese entities reported a loss by USD 262.7 million as compared to a loss of USD 713 million in 2019. While 2019 losses stem essentially from exceptional ECL taken on Lebanese sovereign Eurobonds, those of 2020 essentially relate to the one-offs commissions paid to depositors of fresh funds benefiting from the multiplier factor. Adjusting

to those flows, Lebanese entities would have achieved net profits of USD 469 million in 2020. This outperformance is mainly related to the significant decrease in the applied cost of deposits facilitated by the imposed informal capital control, along with significant cost savings.

4.4.2. | ODEA BANK

After the restructuring program launched couple of years ago, the performance of Odea Bank in 2020 continues to underscore the ongoing deleveraging policy favouring, in priority, further enhancing the Bank's liquidity and solvency within a tight control on credit quality. Its activity was also marked by the impact of the COVID-19 pandemic on the banking sector's activity in Turkey.

Assets of Odea Bank increased from TRY 33 billion as at end-December 2019 to TRY 40 billion as at end-December 2020. In parallel, deposits

of Odea Bank increased from TRY 22.1 billion as at end-December 2019 to TRY 24.9 billion as at end-December 2020, representing a rise by TRY 2.8 billion, of which TRY 3.3 billion attributed to the FX translation effect of deposits denominated in foreign currencies, amid a real contraction by TRY 0.5 billion. Loans to customers at Odea Bank reported a mere contraction in real terms by TRY 91 million in 2020, totally offset by a TRY 2 billion FX translation effect, leaving a nominal increase by TRY 1.9 billion from TRY 16.5 billion as at end-December 2019 to TRY 18.4 billion as at end-December 2020.

(TRY Million)	Dec-19	Dec-20	Change
Balance sheet data			
Assets	33,025	40,006	6,981
Deposits	22,122	24,922	2,800
Loans	16,516	18,406	1,890
Equity	3,300	3,456	156
Outstanding LCs + LGs	2,376	2,972	596
Earnings data			
	2019	2020	Change
Total income	1,086.4	1,091.2	4.8
Net profits	71.1	134.2	63.1
Spread	3.0%	2.4%	-0.6%
ROAA	0.2%	0.4%	0.2%
ROACE	2.2%	4.0%	1.8%

At the loan quality level, the credit-impaired loans to gross loans ratio improved by 3.7% from 15% as at end-December 2019 to 11.3% as at end-December 2020. This evolution is mostly attributed to a TRY 522 million contraction in credit-impaired loans from TRY 2.8 billion as at end-December 2019 to TRY 2.3 billion as at end-December 2020. Adjusting to the contraction of gross loans over the year by 12%, the ratio of

credit-impaired loans to gross loans would have improved by a further 1.4% to 9.9%. Odea Bank posted net profits of TRY 134 million in 2020 compared to TRY 71 million in 2019, with the increase stemming from the lower loss allowance which remained albeit significant at TRY 234 million.

4.4.3. | PRIVATE BANKING ENTITIES

At Bank Audi, the Private Banking business operates under the brand Bank Audi Private Bank which owns, after the merger of Audi Private Bank sal under Bank Audi sal, through a Cyprus holding, two banks: Banque Audi (Suisse) SA and Audi Capital (KSA), and operates a sales platform in the UAE. Bank Audi Private Bank also covers Sub-Saharan Africa and

Latin America through dedicated desks. The following analysis covers the performance of Private Banking entities in 2020 as compared to 2019, excluding Audi Private Bank, which as a result of the Lebanese crisis, was sold back to Bank Audi sal (and subsequently merged) in December 2020:

(USD Million)	Dec-19 ^(*)	Dec-20 ^(*)	Change
Balance sheet data			
On-balance sheet assets	1,839	2,317	478
Total client assets	7,944	6,927	-1,017
o.w. AuMs (off-balance sheet)	4,414	4,113	-301
o.w. Deposits (on-balance sheet)	1,277	1,684	407
o.w. Fiduciary deposits (off-balance sheet)	2,254	1,130	-1,124
Client loans	803	600	-203
Equity	341	427	86
Earnings data			
	2019 ^(*)	2020 ^(*)	Change
Total income	99.8	77.1	-22.7
Net profits	10.3	21.4	11.1
Spread (on AA +AAuMs)	0.4%	0.3%	-0.1%
ROAA+AAuMs	0.1%	0.3%	0.2%
ROACE	3.2%	5.7%	2.5%

^(*) Excluding APB after merging their business operations with Bank Audi sal.

Clients' assets (comprising of client deposits as well as off-balance sheet AuMs including AuMs, fiduciary deposits and custody accounts) at Bank Audi Private Bank decreased by USD 1 billion in 2020, from USD 7.9 billion as at end-December 2019 to USD 6.9 billion at end-December 2020, with the decrease reflecting principally the impact of the Lebanese crisis on the activity of the operations, coupled with difficult market conditions

as a result of the outbreak of the COVID-19 pandemic worldwide. Notwithstanding, Private Banking entities reported an increase in net profits, from USD 10.3 million in 2019 to USD 21.4 million in 2020. This evolution is mostly attributed to significantly lower credit impairment charges on Lebanese sovereign Eurobonds, totally offsetting the drop in total income by USD 22.7 million.

4.5. | PRINCIPAL BUSINESS ACTIVITIES

4.5.1. | COMMERCIAL AND CORPORATE BANKING

The impact of the COVID-19 pandemic on corporate and commercial businesses globally has been tremendous. Bank Audi has taken rapid action to navigate extreme volatility across its markets of operations while factoring in frequent and wide-ranging regulatory developments. The main objectives of the Bank have been to support clients’ business continuity while ensuring adequate portfolio quality.

During 2020, and on the backdrop of the Bank’s overall strategy to contain its credit portfolio, net consolidated lending by Corporate and Commercial Banking decreased by 24%, from USD 6.7 billion as at end-December 2019 to USD 5.1 billion as at end-December 2020 due to the deleveraging strategy and the de-consolidation of subsidiaries held for sale (Egypt, Iraq and Jordan entities).

Lebanese Operations

Following the economic fallout of the Lebanese Crisis exacerbated by the COVID-19 pandemic and the August 4 Beirut port blast, and despite the challenges faced by the Lebanese banking sector, Bank Audi has strived to (1) provide banking support to its Corporate and Commercial Banking clients to ensure business continuity, and (2) proactively deleverage the corporate and commercial portfolio in line with the contraction of the Lebanese economy while ensuring proper portfolio quality.

The Bank supported its clients to maintain their international business operations through the “External Account” which allows companies to make unrestricted daily foreign currency transactions. USD 2.6 billion of inflows in cash and international transfers in foreign currency from corporate and commercial clients were processed during 2020, mostly to maintain the vital flow of goods to Lebanon, despite the difficulty in obtaining confirmations by correspondent banks on letters of credit issued by Lebanese banks.

Moreover, the Bank provided financial support and procured foreign currency to its clients backed by Central Bank regulation and subsidy programs:

- The Bank processed over USD 800 million to its corporate and

4.5.2. | RETAIL BANKING

The year 2020 was an exceptional year for the world as it faced the challenging COVID-19 pandemic, leaving the Retail Banking industry in uncharted waters. Bank Audi’s entities were directly affected by the negative implications of the pandemic, as they had to operate under unprecedented working environments with disrupting conditions while juggling their own specific priorities. Despite all, Bank Audi was as agile as ever and it immediately responded to these challenges by implementing smart and efficient measures across all its entities. The Bank leveraged its strong digital leadership position across its entities to accelerate customer alternative delivery channel engagement. In this respect, all entities worked on three main COVID-19 management fronts: (1) providing sufficient branch working hours while adhering to top level hygiene and safety precaution protocols, (2) expanding digitisation by encouraging and supporting customers to use alternative delivery channels (ATMs/ ITMs, Internet & Mobile Banking, and the Contact Center), and (3) minimising back office working capacity while providing remote working setup for employees.

commercial clients to assist them in procuring foreign currency needed for the import of petroleum products, wheat, pharmaceutical products, medical supplies, industrial support and food through the Central Bank subsidy programs, in line with Central Bank circulars 530, 535, 556 and 564.

- In line with Central Bank circular 547 to provide exceptional interest free loans to businesses due to the economic situation, the Bank granted new loans repayable over a period of up to 5 years at 0% interest to finance salaries, operating expenses and loan repayments falling during the months of March to May 2020.

In light of the economic and financial challenges and the contraction of the Lebanese economy with real GDP shrinking by 25% in 2020, the Bank adopted a de-risking policy, which resulted in a significant drop of the Lebanese corporate and commercial loan portfolio. Total net loans to Corporate and Commercial clients dropped by 40% from USD 2.7 billion as at end-December 2019 restated to USD 1.6 billion as at end-December 2020. A large part of the drop has been driven by clients (i) carrying out set-offs of debt against deposits and (ii) increased real estate activity whereby clients have been resorting to real estate; real estate developers have applied the sale proceeds to deleverage.

Foreign Entities

In Turkey – As at end-December 2020, the corporate and commercial net loan portfolio at Odea Bank reached USD 2.4 billion, down by 8% when compared to USD 2.6 billion as at end-December 2019. This decrease is in line with the Bank’s continued strategy to concentrate on the anchor relationships with cross-selling opportunities.

In France – The corporate and commercial net loan portfolio at Bank Audi France dropped from USD 409 million as at end-December 2019 to USD 327 million as at end-December 2020, commensurate with the strategy to de-risk foreign entities from Lebanon-related exposure. Bank Audi France continues to support the Group’s corporate customers in their businesses and investments internationally.

Following the de-consolidation of the retail loan portfolios related to Egypt, Iraq and Jordan entities in parallel with the de-risking strategy implemented in Lebanon, the consolidated retail loan portfolio dropped from USD 1.6 billion at end-December 2019 restated to USD 1.1 billion at end-December 2020.

The breakdown by products as at end-December 2020 showed that housing loans backed by mortgages constituted 62% of the consolidated retail loan portfolio, followed by personal loans with 19%, credit cards with 13%, and car loans with 3%, in addition to 3% of small/ multipurpose loans.

The ratio of credit-impaired retail loans to gross retail loans increased to 17.5% as at end-December 2020, from 11.5% as at end-December 2019 restated. The ratio takes into account fully provided for bad debt or loans identified as subject to write-off, but not written off yet due to regulatory requirements and/or market practices. Excluding these loans, the ratio of credit-impaired retail loans would drop to 11% of gross retail loans as at end-December 2020. 71% of credit-impaired retail loans are covered

by allowance for ECL Stage 3 (excluding collaterals), while the credit loss allowance for Stages 1 and 2 retail loans amounted to USD 82.1 million as at December 2020.

The following analysis highlights the Group’s Retail Banking activity and its evolution in 2020 across main geographical development pillars:

Bank Audi Lebanon (BASAL)

The year 2020 was one of the toughest years for Lebanon. On top of the global COVID-19 constraints, Lebanon was facing its own complicated economic crisis and political challenges, especially post August 4’s massive Beirut port blast. This pushed the Bank’s retail business line in Lebanon to operate in a conservative way, favouring service and advice to strategic clients to generate non-interest income and focusing on asset quality enhancement, early loans settlement and collection.

Translated in USD, the consolidated retail loans at BASAL decreased from USD 1.4 billion at end-December 2019 to USD 1.0 billion at end-December 2020. The contraction was mainly driven by the continued deleveraging of the retail portfolio of BASAL in Lebanon.

The breakdown by products as at end-December 2020 showed that housing loans backed by mortgages constituted 63% of the consolidated retail loan portfolio, followed by personal loans with 18%, credit cards with 11%, and car loans with 3%, in addition to 5% of small/ multipurpose loans.

The ratio of credit-impaired retail loans to gross retail loans increased in 2020 to 17% as at end-December 2020, from 11% the previous year. The ratio takes into account fully provided for bad debt or loans identified as subject to write-off, but not written off due to regulatory requirements and or market practices. Excluding these loans, the ratio of credit-impaired retail loans would reach 12% of gross retail loans as at end-December 2020. 73% of credit-impaired retail loans are covered by allowance for ECL (Expected Credit Loss) Stage 3 (excluding collaterals), while the credit loss allowance for Stages 1 and 2 retail loans amounted to USD 81.9 million as at December 2020.

In parallel to lending quality enhancement initiatives, the main objectives of this year were to increase non-interest income and inflow of external foreign currency. In this perspective, the Retail business team actively worked on acquiring multinationals’ and international organisations’ accounts, as well as NGOs, offering them a complete value proposition answering their payment needs.

At the same time, retail product teams revisited their offerings, reducing the number of products on shelves, simplifying their portfolio and adapting offering benefits to the prevailing customers’ needs, taking in consideration a new regulatory context.

As for the Cards business line, the Bank focused on migrating its activities from USD to Lebanese Lira. The Cards department originally held the overwhelming majority of its products and portfolio in USD. Therefore, it was essential to ensure a smooth migration to Lebanese Lira while that seemed to be the right course to take for the Bank as they strived to make the migration appealing to customers as well. As such, they implemented “soft transition” policy revisiting the features, benefits, loyalty and reward programs that customers used to have on their USD cards. In parallel, they swiftly and efficiently put in place a system that dealt with fresh money and offered customers having income or funds

in fresh dollars the possibility of using their cards internationally without any restrictions. Additionally, they started working on introducing new card products dedicated to the profile of customers holding payroll or receiving funds in fresh dollars.

The COVID-19 outbreak further accelerated the Bank’s digitisation focus in Lebanon as it was forced to close its branches abiding by the Ministry of Health’s lockdown stipulation. Customers’ banking needs were promptly catered to during the pandemic through BASAL’s fully integrated 24/7 Contact Center (1570) and ADCs (i.e. ATMs, Interactive Teller Machines [ITMs], Mobile and Online Banking). The 1570 witnessed its heaviest load since its launch and the Bank’s well-trained agents were working around the clock to answer all clients’ inquiries efficiently and contacting back all unanswered calls. Customers lined up at Bank Audi’s ATMs and ITMs in order to withdraw salaries and have cash on hand. During the longest closing period in Lebanon’s history, the Bank constantly replenished its ATM network, around the clock, with banknotes to absorb high customer demand. In addition, internal efforts were exerted during bank closure by NOVO agents to perform several transactions such as debit card issuance and delivery, sub-account opening for companies to transfer employees’ salaries, cash transactions, emergency money transfers, salary payments for retired individuals, as well as credit card replacement and renewal. It is worth noting that BASAL customers were served with more than 6 million transactions performed through digital channels, mainly ATMs and Audi Online. As the Bank constantly seeks customers’ comfort, new features were added in 2020 to optimise this acclaimed digital banking solution. Additional payment services were added to Bank Audi’s Mobile App and Audi Online such as: (1) settling landline and postpaid mobile line bills, (2) recharging prepaid lines, (3) recharging internet packages, (4) settling tuition fees of a number of universities and schools, and (4) making transfers from one’s own USD to LBP accounts at a rate of 3,900 as per Bdl’s Circular 151 which allows customers to either spend it on debit card or withdraw cash from the ATM.

Bank Audi Egypt (BAEGY)

Retail Banking continued to be the main contributor to Bank Audi’s profitability, with a contribution of almost 50%. In addition, the Bank’s vision continued to perceive Retail Banking as one of the most consistent revenue generators by enabling convenience, unique value proposition and innovative solutions to its customers.

In 2020, BAEGY’s retail-lending portfolios showed a significant increase to reach EGP 9.8 billion as of 2020, achieving a year over year growth by 36.3% despite the COVID-19 challenges and the CBE initiatives in this regard. BAEGY continued its effort to capitalise on business opportunities in the SME asset through its unique Very Small Business Loans Program, “VSBL”, which finances companies with an annual sales turnover of up to EGP 50 million. This helped increase the Bank’s current portfolio of customers to reach 871 customers, with incremental VSBL portfolio growth by 33.61%. Bank Audi Auto Loans witnessed a significant portfolio growth by 54.5%. The Bank made sure to closely monitor the turnaround time to ensure all loans are booked in a timely manner. During 2020, BAEGY also kept a close eye on financing its customers’ needs through various personal loans programs while ensuring better portfolio credit performance and decreasing overall delinquency ratios. This helped achieve 35% growth in the personal loan portfolio. As Bank Audi Egypt has always been one of the most proactive banks in the Retail Banking sector, it ranked 5th in terms of total retail lending as of Q2 2020, 7th in terms of retail loans portfolio, and 5th in credit cards enrollment between peer private banks.

Retail Banking liabilities portfolio witnessed incremental growth of 13.02% during 2020, and succeeded to minimise the tradeoffs between deposit interest rates and margins to ensure customers’ ongoing satisfaction. In order to maintain this, 2020 witnessed the launch of a series of new products to match customer needs, mainly a three, six and nine months time-deposit generating a monthly interest with a very competitive rate targeting customers who prefer a short-term product while maintaining high returns. The Mega Egyptian Pounds current account campaign yielded its aspired benefits on the non-interest income portfolio, with growth up to 39%. Despite the COVID-19 challenges, BAEGY succeeded in growing its customer base by 14%.

2020 also witnessed the full rollout of the “Royale” proposition that had been launched at the end of 2019. This proposition, along with the “Premiere” and “Select” offers, ensures that the Bank remains at customers’ side through all the stages of their financial life, helping them grow and achieve their goals. In 2020, BAEGY achieved substantial growth within all its household segments. The “Royale” segment witnessed a growth of 7% in LCY portfolio, which clearly reflects customers’ trust.

To make sure that the Bank was aligned with market dynamics and Egypt’s market strategy regarding corporate non-borrowing companies, BAEGY introduced the “Easy Business” proposition to cover all target segments’ financial and non-financial benefits.

Bank Audi credit and debit cards were the main key drivers in revenue generation and in acquiring new to bank customers. In 2020, BAEGY introduced two new credit cards: the “World Elite” and “Platinum” cards to fit all customers’ needs. Furthermore, to ensure an exceptional and safer online shopping experience, the Bank enrolled all its credit and debit Mastercard cards in the 3D Secure service.

Additionally, several acquisition campaigns were launched in 2020 to attract new customers. Despite the impact of the COVID-19 pandemic on customers’ spending, enrollment increased by 4% to reach EGP 672 million, while the portfolio size increased by 11.4% to reach 62,000 credit cards.

The year 2020 presented new opportunities for the Retail Banking to focus on digital and alternative delivery channels. Thus the Bank increased and enhanced its vast array of alternative delivery channels and services which includes 168 ATMs, 53 branches and a 24/7 call center. It also enriched its ATM network with new and innovative services such as card-less deposits and I-score inquiry which save clients or their messengers a trip to the branch and offers them the convenience of flexible hours. In parallel, BAEGY launched a new Customer On-Boarding mobile application which enables its sales team to provide customers with initial instant feedback on their loans and credit cards applications. This allows customers to apply instantly and benefit from faster service. Online

Banking took a completely new shape during 2020, and was coupled with a mobile application to provide clients with the utmost convenience. The mobile wallet application also witnessed a 72% increase in acquisition. BAEGY received more than 17,000 customer requests through a new two-way SMS system launched on an initiative by the Central Bank of Egypt and allowing installment postponement to facilitate the reception of customer requests.

In 2020, the Central Bank of Egypt recommended focus on Financial Inclusion. Accordingly, a new department was set up with a clear strategy for the upcoming three years: developing products to apply financial inclusion and increase the bankable population.

In September 2020, BAEGY was granted an acquiring E-Com digital license from the Central Bank of Egypt. The Bank collaborated with a multinational consultancy firm and developed a five-year strategy aligned with financial inclusion principles. Digital projects were not only developed on the front side, but were also put in place at the Bank’s end to ensure a more secure experience for customers. BAEGY also implemented a new Online Fraud monitoring system which provides a complete solution for transaction authentication, as well as predictive fraud detection and prevention, and alert management.

In Turkey, Odea Bank continued to develop structures providing full-fledged service in deposit and investment products at every point of contact with customers by improving its service and activity processes. This strategy brought a cooperation between Odea Bank and Tacirler Yatirim for Equity Trading in 2020. Furthermore, “FX’O”, a trading platform that covers FX spot, forwards, swaps and FX options, was realised for Odea Bank branches, which enabled constructing and managing specific prices for clients.

Odea Bank’s main goal was to provide customers with products and services that are tailored to their needs and testablish long-lasting relationships based on trust. The total share of 3-6 months term deposits thus increased from 0.3% to 8.5% in 2020.

The Bank also launched its segmentation project in September 2020, with a view to meeting the changing needs of customers with different characteristics. The “Affluent Banking” segment was established for customers in the upper-income segment in order to offer the right products and services to the right customers. Through the “Affluent Banking” services, the Bank aimed to offer boutique services which meet customers’ financial and non-financial expectations.

With the COVID-19 pandemic forcing digitalisation to develop across the entire financial sector, “Bank’O Sube” fully met customers’ digital expectations during lockdown periods. Over 10,000 additional customers were gained in one year, and were added to existing customers who prefer digital banking services and have opted for “Bank’O Sube”.

4.5.3. | PRIVATE BANKING

Bank Audi Private Bank, which provides services to high net worth individuals through its network in Europe (Geneva) and the Middle East (Beirut, Riyadh, Abu Dhabi and Amman), now comprises two main booking entities, namely, Banque Audi (Suisse) SA and Audi Capital (KSA).

Bank Audi Private Bank offers a full and diversified range of services, with access to major markets worldwide and global investment products, including discretionary portfolio management, investment advisory and trade execution services in all asset classes, structuring and management of Saudi and regional funds, and other Private Banking services. Its main customers are high net worth individuals in Lebanon, Europe and the Gulf region, as well as the Lebanese diaspora in Sub-saharan Africa and Latin America.

Bank Audi Private Bank entities have consolidated assets under management (comprising of assets under management, fiduciary deposits and custody accounts) reaching USD 5.3 billion at

end-December 2020, excluding Audi Private Bank sal. In Switzerland, Banque Audi (Suisse) SA represents the main Private Banking arm of the Group, with over USD 4.5 billion in AuMs. In Saudi Arabia, Audi Capital (KSA) serves as the Group’s main Private Banking hub for GCC markets, with AuMs of USD 0.8 billion.

The restructuring of the Private Banking business line continues to advance, with the Private Banking entities and related business under one legal operating holding. Private Banking entities now have the same management structure, which will progressively ensure better synergy and accountability, effective management, corporate governance, and alignment of business objectives. The de-risking of its balance sheet by the sale of Audi Private Bank sal will help ensure that the Private Banking business is well-poised for future growth outside of Lebanon, particularly given the persisting challenging domestic and global economic conditions.

4.5.4. | TREASURY AND CAPITAL MARKETS

Lebanon has been facing an unprecedented economic and financial crisis. On 7 March 2020, the Lebanese government announced that it would withhold payment on its USD 1.2 billion Eurobond maturing on 9 March 2020. Shortly thereafter, the government announced that it will discontinue payment on all of its outstanding Eurobond obligations (circa USD 31 billion), as well as its intent to restructure all of its outstanding public debt (USD and LBP).

On 30 April 2020, the government approved a Financial Recovery Plan (FRP) which estimated that losses incurred by Lebanese banks could reach LBP 186 trillion (approximately USD 123 billion at the official exchange rate of LBP 1,507.5 per USD). The FRP also provided for a full bail-in of existing common and preferred shareholders, as well as a bail-in of market instruments issued by banks. The Association of Banks in Lebanon rejected the FRP and published an alternative plan.

In addition, Lebanon had to deal with the COVID-19 pandemic, with its negative impact on an already fragile economy (balance of payment crisis, devaluation of the local currency, recession, high unemployment, etc.). While the government’s initial response was commendable given its limited resources, the pandemic and the country-wide lockdown had a negative impact on banks’ and clients’ activity – large corporates, SMEs and retail.

Furthermore, the devastating explosion in the Beirut seaport (the main import gateway into the country) on 4 August caused extensive damage to the city and left many casualties. There were approximately 200 fatalities, more than 6,000 casualties, and 300,000 people were displaced. In addition to the very heavy human toll, damage to property and infrastructure has been estimated at over USD 15 billion.

The government resigned a few days after the explosion, and while a new Prime Minister was appointed at the end of October, the formation of a cabinet seems challenging, delaying the implementation of the FRP and negotiations with the IMF on a program.

All of these developments, including the sovereign default, have put extreme pressure on all Lebanese banks, and has negatively affected all our financial metrics – solvency, asset quality, profitability, liquidity, etc. In October 2019, all Lebanese banks imposed strict limitations on cross-border transfers. Those restrictions have gradually tightened over the past few months, in view of the deteriorating financial and economic conditions in the country. This in turn critically affected banks’ offshore liquidity position. Currently, banks are only accommodating very critical transactions, such as the import of strategic goods to Lebanon (food, fuel and medical equipment). Additionally, the explosion of 4 August has put added pressure on the banking sector, as well as all the stakeholders in the country, to allocate an amount of what remains of their USD liquidity to support humanitarian efforts.

5.0. | EARNINGS ALLOCATION

At the Ordinary General Meeting of the Bank’s shareholders held on 12 April 2019, the Bank’s shareholders approved the distribution of dividends out of the Bank’s net income in 2018, of USD 6.50 per series “H” preferred share, USD 7.00 per series “I” preferred share, USD 7.00

Payment of Dividends

Since 1996, the Board of Directors of the Bank has recommended the distribution to holders of common shares of a dividend payment of at least 30% of after-tax profits in each year.

Pursuant to the Bank’s by-laws, subject to the requirements of Lebanese law, the Bank’s net income in each financial year shall be allocated in the following order of priority:

- To the allocation of 10% of net income to the legal reserve until such reserve reaches one-third of the Bank’s share capital.
- To the allocation of amounts required for the establishment of legal regulatory reserves.
- To the payment of distributions in respect of any outstanding series “H” preferred shares, series “I” preferred shares and series “J” preferred shares, as and when approved by the shareholders of the Bank pursuant to a resolution adopted at the General Meeting of shareholders during which the most recent annual audited financial statements of the Bank are approved.
- To the holders of common shares.
- To the establishment of additional special or general reserves or to the allocation of amounts to be carried forward to the following year, in accordance with a decision of the Bank’s shareholders pursuant to a resolution adopted at a General Meeting.

The Bank is legally required to establish and maintain a legal reserve to which an amount equal to 10.0% of the annual net profits after taxation must be transferred each year until such reserve reaches one-third of the Bank’s share capital. The legal reserve is distributable only upon the liquidation of the Bank.

Pursuant to Central Bank Decision No. 7129, the Bank was legally required to set aside a minimum of 0.2% and a maximum of 0.3% of its risk-weighted assets as a reserve for general banking risks, which forms an integral part of the Bank’s Tier 1 capital. The accumulated reserve for general banking risks must be equivalent to 1.25% of risk-weighted assets within 10 years from Decision 7129’s issuance and 2.0% of risk-weighted assets within 20 years from such date. The Bank has already reached the regulatory 2.0% threshold and transferred the outstanding balance to non-distributable general reserves, as required by Central Bank Decision No. 12713 issued on 7 November 2017. From 2018 onward, the Bank discontinued the yearly allocation previously required by Central Bank Decision No. 7129.

per series “J” preferred share, and LBP 829.125 per common share, after deduction of withholding tax, where applicable. Total dividends paid in respect of 2018 represented 52.2% of the Bank’s net earnings for 2018.

In addition, Central Bank Decision No. 7740, dated 21 December 2000, as amended, provides that banks are required to establish a special reserve for properties acquired in satisfaction of debts and not liquidated within the required delays. BCC Circular No. 4/2008 provides that banks must establish such special reserve at the end of the fiscal year during which the acquired property should have been liquidated. This special reserve shall be withheld from the annual profits and shall not be accounted for as an expense in the profit and loss account, in accordance with IFRS. Pursuant to Central Bank Decision No. 12116 dated 26 October 2015, as amended, the special reserve should be constituted over a period of 20 years.

In accordance with BCC Circular No. 270 dated 19 September 2011, the Bank was required to allocate the value of gross unrealised profits on financial assets at fair value through profit or loss as a special reserve. This reserve is not available for dividend distributions until such profits are realised and released to the Bank’s general reserves.

No dividends or other distributions in respect of the common shares may be made unless and until the full amount of distributions in respect of any outstanding series “H” preferred shares, series “I” preferred shares and series “J” preferred shares, and any future series of preferred shares of the Bank at the time outstanding and ranking pari passu with the existing preferred shares, in each case, then due and payable shall have been paid or declared and set aside.

Payment of dividends to holders of common shares must be made annually, subject to the aforementioned regulations, on the dates specified by the General Meeting (or any other shareholders’ meeting) at which the relevant annual audited financial statements of the Bank are approved. Under Lebanese law, dividends not claimed within five years of the date of payment become barred by statute of limitations; half of these unclaimed dividends revert to the Bank, while the balance is paid over to the government.

In 2019 and 2020, the Central Bank issued two circulars impacting the Bank’s dividend distribution policy; in November 2019, BdL Intermediary Circular 567 restricted banks operating in Lebanon from distributing dividends from 2019 profits while Intermediary Circular 567 issued in February 2020 prohibited banks from paying dividends on future periods if capital adequacy ratios fall below the newly introduced levels of 7%, 8.5% and 10.5% respectively for CET1, Tier 1 and total capital. Pursuant to those circulars, the Board of Directors recommended to the Ordinary General Assembly in its April 2020 meeting not to distribute common and preferred dividends on the 2019 exercise.

The table below highlights dividends’ distribution latest practices at Bank Audi:

CONSOLIDATED PAYOUT RATIO

(USD Million)	2014	2015	2016	2017	2018
Common earnings	320.0	380.3	439.7	516.6	458.9
Dividends on common shares	159.7	159.9	199.9	219.9	219.9
Dividends per common shares (USD)	0.40	0.40	0.50	0.55	0.55
Payout ratio on common shares	49.9%	42.1%	45.5%	42.6%	47.9%
Dividends on preferred shares	30.4	22.9	30.4	42.4	41.6
Total dividends	190.1	182.8	230.2	262.2	261.5
Net earnings	350.3	403.1	470.1	559.0	500.6
Total payout ratio	54.3%	45.3%	49.0%	46.9%	52.2%

Pursuant to the decision of the Ministry of Finance in Lebanon late 2017 (Law No. 64 published in the Official Gazette on 26 October 2017), the

withholding tax on dividends of listed companies has increased from 5% to a current 10%.

6.0. | RISK MANAGEMENT

During 2020, the Group came under severe pressure as a result of many challenges and related high uncertainties, particularly in Lebanon.

capacity; 5) targeting a lean organisational structure by improving operational efficiency and optimising cost structure.

In view of these challenges and as remedial measures, the Group has been primarily focusing on: 1) strengthening its foreign currency liquidity metrics in Lebanon and abroad; 2) maintaining sufficient capital buffers over the minimum regulatory capital adequacy levels; 3) strengthening asset quality metrics including significantly reducing Lebanese sovereign debt exposure in foreign currency; 4) ensuring that foreign entities continue to provide the Group with diversified income generation

While the above remedial measures have helped to bolster the Group’s financial position, high uncertainties still remain with regards to: 1) the impact of a potential future devaluation of the LBP on the official market; 2) potential future losses on BdL exposure in foreign currency; and 3) increased exposure to litigation risk in the absence of a formal capital control law governing current restrictions on international transfers.

6.1. | EVOLUTION OF THE GROUP’S RISK MANAGEMENT FRAMEWORK

Compliance with Regulatory Requirements

The Bank continues to be committed to the full and complete implementation of all laws and regulations governing its activities.

well as financial projections, over the coming four years under base and stressed scenarios.

During 2020, the Central Bank of Lebanon and the Banking Control Commission issued a number of regulations, among which a few in relation to the minimum requirements on capital adequacy ratios, provision coverages on various asset classes, including exposures to the Lebanese sovereign and BdL in foreign currency, and international foreign currency liquidity ratio.

Given the many uncertainties still governing the operating environment in Lebanon, this Roadmap remains a work in progress and will be modified, if and when needed, as the Lebanese situation evolves.

Separately, during 2020, the Bank’s subsidiaries in Turkey, Egypt, Saudi Arabia and Jordan continued to conduct their yearly Internal Capital Adequacy Assessment Processes (ICAAP).

The Group has taken a series of measures to ensure compliance with these new rules and regulations, and more widely to strengthen its financial position. These measures include: 1) raising new capital; 2) disposing of the majority of the Republic of Lebanon Eurobonds portfolio; 3) allocating additional provisions on loan and BdL exposures; 4) signing definitive agreements for the sale of Bank Audi Egypt, as well as the Bank’s Jordanian and Iraqi operations; 5) raising materially international foreign currency liquidity position; and 6) deleveraging the loan portfolios.

The ICAAP complements Pillar 1 regulatory capital calculations and allows Management and the Board of Directors of the parent and concerned entities to assess the capital adequacy by taking into account all material risks that the Bank is facing under both normal and severe stress scenarios. It also enables the use and reporting of economic capital, which reflects the Bank’s own internal views of capital requirements.

Strategic Priorities and Capital Plan

Also in response to a new regulation by the Central Bank of Lebanon, the Bank has submitted a Roadmap relaying its strategy and capital plan for 2020-2024. This Roadmap presents the Bank’s key strategic objectives, as

Implementation of the Recovery Plan

During the course of 2019-2020, Bank Audi has activated its internal Recovery Plan following the stressed conditions prevailing after the October 2019 events. This plan is normally prepared on a yearly basis in line with the Central Bank of Lebanon directive (Basic Circular 141 issued in 2017) requiring banks operating in Lebanon to prepare recovery plans covering their local operations and material foreign entities.

The activation of this plan entailed the implementation of a set of remedial measures aiming at improving, among other, liquidity and solvency metrics.

Revised Risk Appetite

To further address the new uncertainties deriving from the Lebanese Crisis, the Bank revised its Risk Appetite and Limits framework to better reflect the current market environment and the Bank’s new strategic priorities. The revised framework focuses on six main pillars, namely: 1) asset quality; 2) quality of earnings; 3) liquidity & ALM; 4) solvency; 5) operational and other non-financial risks; and 6) governance.

In Lebanon and since the start of the Crisis, the Bank has been placing the highest importance and priority on maintaining a robust international liquidity profile, to ensure all existing and future international commitments, including external accounts, are adequately covered.

The Bank has also been striving to enhance the quality of its earnings by diversifying its revenue sources, enhance the quality of its assets, both

loans and financial assets, ensure adequate provision coverage, as well as strengthen its capital adequacy metrics.

In addition to these financial risks, the Bank has been placing great importance on the monitoring of non-financial risks including litigation, compliance, and reputational risks, especially in light of the prevailing adverse conditions in Lebanon.

Priorities for 2021

From a risk perspective, priorities in 2021 will focus on: 1) strengthening international liquidity metrics to ensure international commitments are adequately covered; 2) addressing non-financial risks, particularly litigation risk in the absence of a formal capital control law; 3) diversifying and strengthening the quality of earnings that the Bank generates both locally and internationally; 4) reinforcing asset quality metrics by: i) enhancing provision coverages specifically on BdL exposure in foreign currency, ii) maintaining robust collection efforts while continuing deleveraging the loan portfolio, particularly in Lebanon, and iii) tightening underwriting lending criteria in foreign entities.

6.2. | CREDIT RISK

6.2.1 | CORPORATE CREDIT

During 2020, the Bank continued the implementation of the deleveraging strategy of its loan portfolio and increased its efforts to provision and collect delinquent loans.

The consolidated non-retail net loan portfolio contracted by 24% in 2020, from USD 6.7 billion as at 31 December 2019 restated to USD 5.1 billion as at 31 December 2020, with most of this contraction being attributed to the reduction of Bank Audi Lebanon’s non-retail portfolio by 40% as a result of the adopted de-risking strategy.

6.2.2 | RETAIL CREDIT RISK

The development and deployment of application scorecards continued and was finalised throughout 2019, covering various consumer products in all entities. With this development, Bank Audi has largely completed the transition of credit decision platforms to reliably consistent ones, which enhance the predictability of risk.

exposure, contracted by around USD 0.5 billion, from USD 1.5 billion as at 31 December 2019 to USD 1 billion as at 31 December 2020.

Management has made significant efforts to increase provisions to cover for potential further deterioration in the asset quality of the Lebanese retail portfolio during 2020. As at 31 December 2020, Stage 3 provision coverages for the Lebanese retail portfolio stood at 100% for all products excluding housing loans and around 70% including housing loans. To note that 70% of the Lebanese retail portfolio is denominated in Lebanese Pound, which will help alleviate the pressure on asset quality going forward.

6.2.3. | LENDING IN THE PRIVATE BANK

During the course of 2020, the Bank exited from providing independent Private Banking services in Lebanon, by merging its local Private Banking arm – Audi Private Bank – with its local Commercial Banking operations.

criteria that are further adjusted to take into account mismatches and unusual concentrations. A special purpose software is used – Finboard – that revalues portfolios and exposures on a real-time basis, allows simulations and stress testing, and generates margin call alerts. This lending discipline, together with very tight and automated monitoring standards, ensures that the portfolio remains of very high credit quality.

Banque Audi (Suisse) engages in Lombard lending – lending against highly liquid and diversified collateral – with very conservative loan to value

6.2.4. | IFRS 9 IMPAIRMENT

The Group applies the IFRS9 standard on a consolidated basis. This necessitates the estimation of the Probability of Default (PD) and Loss Given Default (LGD) for each portfolio by country of operation and segment. The Group, to the most extent possible, has relied on its own historical information to estimate PDs and LGDs, and when such information was not available internally and for selective portfolios, the Group has used external information such as the PDs and LGDs reported by various external rating agencies.

In view of the prevailing crisis in Lebanon, Management has focused on improving provisioning coverage on its Lebanese loan portfolio. This was applicable to both the retail and non-retail Lebanese exposures. Going forward, Management’s priorities include strengthening provision coverage on BdL exposure in foreign currency beyond the regulatory required level.

Following the sale of the majority of the Republic of Lebanon Eurobonds portfolio during 2020, the remaining related exposure, net of provision, as at 31 December 2020 has become immaterial.

6.3. | ALM AND LIQUIDITY RISK MANAGEMENT

6.3.1. | LIQUIDITY RISK

Following the October 2019 events and de-facto restrictions on international fund transfers, the Bank in Lebanon started managing international foreign currency liquidity separately from the local foreign currency one.

To monitor and manage liquidity under normal and stressed conditions, the Bank employs a number of key metrics, such as:

Since then, the Bank has made considerable efforts to improve its foreign liquidity position in order to meet its international commitments, as well as to comply with the 3% regulatory liquidity limit set by the Central Bank of Lebanon through BdL Basic Circular 154.

- International foreign currency liquidity coverage relative to international commitments including external account balances. This is specifically applicable to Lebanon.
- Net cash flow coverage to deposit ratios over a given horizon.
- Liquidity Coverage Ratio (LCR).
- Cash flow gap analysis that compares the timing of cash inflow with cash outflow.
- Other metrics such as the loan-to-deposit ratio.

The Group also took several measures to ring-fence the Bank’s foreign subsidiaries from the spillover effects of the Lebanese Crisis. As at 31 December 2020, all foreign entities of the Group enjoy comfortable levels of liquidity in hard currencies.

In addition, the Group performs liquidity stress tests as part of its liquidity monitoring. The purpose is to ensure sufficient liquidity is maintained under both idiosyncratic and systemic market stress conditions.

6.3.2. | INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Interest rate risk in the banking book arises out of the Bank’s interest-sensitive asset, liability and derivative positions. The mismatch in the repricing dates of these positions creates interest rate risk for the Bank, which is inherent in its banking activities.

- Changes in the Bank’s economic value of equity to given interest rate scenarios.

Interest rate hedging activities are undertaken through natural balance sheet hedges or derivatives where appropriate.

These measurements are calculated under both the regulatory and economic approaches, with the latter reflecting Management’s own views and assumptions.

The Bank calculates the Interest Rate Risk in the Banking Book (IRRBB) capital charge as per Basel approach.

The following measurements are used, among others, to enable greater understanding of:
- Changes in the Bank’s net interest income to given interest rate scenarios.

Due to the high financial uncertainties and disruptive local market in Lebanon, managing local interest rate risk is being done on an ad-hoc basis by focusing on the net interest income approach. This helps to better reflect the fast changing monetary environment and increased level of regulatory and market restrictions, which in turn prevent the use of other standard interest rate risk management practices.

6.3.3. | MARKET RISK

Market risk is defined as the potential loss in both on and off-balance sheet positions resulting from movements in market risk factors, such as foreign exchange rates, interest rates and equity prices.

from trading activities in FX and interest rates. The Bank, through its Turkish subsidiary, engages in such operations under a strict trading mandate that ensures that the risk of loss from these activities is kept very low and within comfortably manageable levels.

The Bank maintains a very low appetite to market risk stemming from changes in interest rates, equity prices and foreign exchange rates. However, operations in Turkey present revenue-generating opportunities

In Lebanon, the significant devaluation of the LBP on the parallel market during 2020 and the risk of a further devaluation in the future, as well

as the presence of multiple exchange rates (official rate, parallel market rate, platform rate) present a number of impediments for the Bank to manage effectively its market risk position stemming from foreign exchange risk. During 2020, the Lebanese Crisis exerted significant

6.4. | NON-FINANCIAL RISKS

6.4.1. | OPERATIONAL RISK

Operational risk is the loss or damage that may result from inadequate or failed internal processes, people, systems and external events. Legal risk is also covered in the Basel definition of operational risk, which excludes strategic and reputational risks. Still, these last two types of risks are mitigated when the operational risks that act as their risk drivers are controlled properly.

The first pillar upon which the mitigation of operational risk rests is a robust Board-approved framework that sets a sound governance, along with high-level standards and guidelines for managing operational risks, while ensuring compliance with laws, regulations and best practices. The second pillar is the effective implementation of this framework, which should be subject to periodic reviews to maintain its relevance given the Bank's operating environment and the overall strategy of the Group.

At Bank Audi, the management of operational risk is decentralised and based on a three-line-of-defense approach. Business line managers act as a first line of defense by managing operational risks arising from their daily activities. The second line of defense is assumed by several support functions that mainly include: Operational Risk, Corporate Information Security and Business Continuity, Legal, Compliance, Regulatory Compliance and Internal Control. Internal Audit, which constitutes the third line of defense, provides an independent assurance on the effectiveness and relevance of the operational risk framework, through audits carried out according to local regulatory requirements and standard industry practices.

Operational risks are identified, assessed, monitored and controlled through dynamic risk and control assessments, key risk indicators, incident

pressure on the Bank's FX open position due to major market disruptions on local conversions between LBP and USD. The Bank is in the process of materially reducing its current FX open position and hopes to complete this during the course of 2021.

reporting, and risk sign-offs on new or major changes in products, services, processes, systems and outsourced activities. To support a sound, efficient, consistent and standardised group-wide adoption of operational risk management practices, the Bank uses an internally developed centralised operational risk solution throughout the Group. As an additional layer of mitigation against operational risk events, the Bank purchases insurance coverage against risks such as cybercrime, computer crime, infidelity, professional indemnity, property, political violence, etc.

The deteriorating operating environment in Lebanon that started in October 2019 brought major stress upon the operations of branches and several departments. This stress sometimes materialised in terms of physical attacks and damage to assets, increased clients' queues, requests and complaints, as well as lawsuits and legal notices from clients in relation to restrictions imposed on cross-border transfers.

This deteriorating operating environment was further exacerbated by the Beirut port explosion that occurred on 4 August 2020. While the head office locations and several branches were greatly damaged, the Bank, including the majority of its impacted branches, managed to resume its operations on 6 August 2020.

Since the beginning of the COVID-19 pandemic, standard and cross contamination measures were being enforced throughout the Group (including temperature checks, hand sanitizers, social distancing, masks, cleaning with disinfectants, team split, and working remotely). These measures have allowed the Bank to continue operating in all its markets with limited disruption despite the many challenges faced.

information and cyber security posture, improve crisis management and the handling of security incidents, as well as ensure the continuity of business operations.

ensure compliance with Information Security regulatory requirements and to raise the awareness level of staff and Management, to enhance the governance framework and to improve the monitoring of critical activities, as well as the effectiveness of information security controls, especially those pertaining to cyber security, data leak prevention, data privacy, change management, and logical and physical access.

6.4.4. | CYBER RESILIENCE

Given the worsening effects of cybercrime globally, especially in the banking sector, the Bank remains abreast of the latest cyber security trends, threats, countermeasures, technologies and tools, through ongoing research and continuous education. As a result, it has implemented several technical and non-technical measures to minimise

the risks from a cyber attack and to strengthen its cyber resilience position. In addition, external expert support is sought when needed. During 2020, the Bank intensified its monitoring of cyber risk that increased following the COVID-19 pandemic and maintained its adoption of security best practices to minimise the risk of related cyber-attacks.

6.4.5. | BUSINESS CONTINUITY

Bank Audi's Business Continuity framework was designed to ensure the continuity of critical business activities in the event of unforeseen incidents disrupting its operations, such as system failures, staff absences due to a pandemic or inaccessible primary head office locations. To that effect, the Bank has established a world-class business continuity site, along with a disaster recovery site that was awarded the Tier 4 – Fault Tolerant Certification of Design Documents and Constructed Facility.

Additionally, a Business Continuity Plan (BCP) was developed and implemented to counteract interruptions to business activities and to protect critical business processes from the effects of major failures of information systems or disasters by ensuring their timely resumption. This plan identifies, among other, business continuity teams and the role of

each, calling trees, emergency procedures, vital records and assembly points. The BCP is updated on an annual basis and upon major changes. Several tests are conducted on a yearly basis to evaluate the effectiveness of the Bank's Business Continuity readiness. The BCP was activated several times since the Crisis started on 17 October 2019, to support the continuity of business operations by hosting in alternate places key personnel who were not able to access their usual office. Moreover, during 2020, the Bank activated the BCP for the Pandemic scenario to ensure the continuity of its business operations with minimal disruption, while taking all necessary COVID-19 countermeasures. In addition, the Bank regularly updates evacuation procedures and conducts fire drills in its headquarters.

7.0. | DEPLOYED RESOURCES

7.1. | INFORMATION TECHNOLOGY

It is a well-established fact that 2020 was an extremely difficult year on Lebanon on various levels.

In addition to the severe political, economic, and monetary crises, and the generalised state of turmoil, the COVID-19 pandemic has taken a big toll on individuals, communities and businesses alike.

Rising to the challenge, Bank Audi Lebanon continued to deploy its best efforts to preserve its level of excellence in every service it provides, and to warrant its customers with a holistic secure and up-to-date banking experience.

Within this problematic context, the IT department at Bank Audi remained committed to its long-running legacy of delivering a strategic advantage to the organisation by sustaining the security, availability and high reliability of its technology infrastructure, along with high quality, customer-oriented services and support, so as to meet the ever-changing needs of its valued customers.

For that purpose, and with a full dedication from the IT technical resources, a vast majority of Bank Audi staff (business and IT users) were given the possibility to effectively and securely work remotely during the lockdown periods, and to ensure business continuity.

Moreover, the IT department continued to work on and deliver previously initiated projects aimed at enhancing operational efficiency. Furthermore, and in order to better cope with the challenging economic circumstances that the banking sector in Lebanon is facing, the IT department worked, in line with the Bank's strategy, on such initiatives as budget and operational cost reductions.

Bank Audi Jordan completed in 2020 the project of upgrading the systems hosting its core banking application, with the usual direct involvement and supervision from Bank Audi Lebanon's IT in any of the Group entities' major projects.

On a more strategic level, Bank Audi signed in 2020 the definitive agreements for the sale of the Group's Branch Networks in Jordan, Iraq, and Egypt. Bank Audi Lebanon's IT department was heavily involved in the due diligence exercises and in the planning and discussions with all stakeholders (entities' IT departments and acquiring banks' IT) on the optimal ways to efficiently and effectively migrate operations to the acquiring banks with minimal to no disruptions. The exercises also tackled all IT-related technical tasks and measures to prepare for the complete and safe disjoint of the sold entities from the Group.

7.2. | HUMAN RESOURCES DEVELOPMENT

2020 was the year that challenged the world and it proved to be even more challenging for Lebanon on all levels: social, economic and more importantly medical. It was “the Year” that tested our humanity.

In Lebanon, the year started with a continuation of the challenges that surged with the onset of the revolution of 17 October 2019, which heavily affected the business at all fronts, namely the banking industry. With customers requesting and banks unable to provide their demands, front liners faced tremendous pressures. Consequently, Management ensured all the needed support and possible assistance were provided.

When the COVID-19 worldwide pandemic hit the country in February 2020, Bank Audi was not spared: in March, the first COVID-19 case was reported and by end of year, 310 employees had tested positive.

Apart from the new business modus operandi, our Human Capital had to ensure a relatively satisfactory customer experience under tremendous pressure, COVID-19 imposed new and strict working measures for safety and health. New guidelines were placed and firm procedures were set to ensure the wellbeing of the workforce during the pandemic.

With the country going into its first lockdown starting mid-March, the Bank had to act fast and put together a contingency plan to ensure business continuity with minimal disruption to clients’ needs. As such, it was a first in the banking industry where it was decided to heavily rely on employees working from home with needed accesses and tools, in addition to alternative delivery channels.

Consequently, the combination of the revolution and the unanticipated outburst of the virus created unprecedented pressures on the Human Capital. With that, new norms emerged and HR had to look beyond managing the “employee experience” at the workplace to actually managing employees’ “life experience”. This drove the team to look into the personal lives of the employees while taking into account the new concerns, stress and emotional exhaustion they were going through. It became a fundamental necessity to find ways to support them with the struggles they face from working from home while caring for their children and other family members.

As an attempt to share their burdens and worries, HR efforts were targeted on employees’ wellbeing and health. A full-fledged internal communication strategy was put in place with focus on continuously sharing up-to-date information, suggestions, tips, guidelines, as well as new regulatory requirements and procedures by email, WhatsApp or SMS. Several online awareness campaigns with subject-matter experts were organised to cover topics related to the COVID-19 virus and other physical, mental and financial health matters. The main concern of the HR team was to provide employees with a safe and judgment-free platform where they can voice their fears and obtain proper guidance and answers to their concerns.

HR created a dedicated COVID-19 response team to provide continuous follow-up while offering moral and logistic support to all employees and their families who were exposed to the virus and/or tested positive to

ease the situation. This also entailed facilitation related to the provision of cashless PCR tests in several facilities/hospitals the Bank had collaborated with; prompt online access to the medical doctor of the Bank for free consultation, counseling and guidance at any given time; and direct coordination with the Bank’s Social Worker for any support and assistance for a smoother recovery.

Such efforts were combined with strict safety measures HR enforced in all its premises including wearing masks, respecting social distancing, and adopting hand-hygiene policies; in addition to the installation of infrared cameras at its head office premises and the distribution of electronic thermometers to all branches. Such measures aimed at detecting any possible cases of COVID-19 and preventing its spread.

In addition, the work schedule was reduced at the onset of 2020. Cafeterias and shuttle services were discontinued while punch machines were replaced by a new in-house developed e-Attendance application. The staff capacity had to be decreased on several occasions throughout the year to as low as 20% depending on the severity of the situation (or to only the exceptional staff during full lockdowns), which aimed at minimising the risk of infection on all parties as much as possible.

Though the pandemic that struck the world was considered severe, the apogee for Lebanon was the August 4 explosion that shook the country. The aftermath: lost lives, a destroyed city of Beirut, and demolished homes. Several of Bank Audi premises were seriously damaged and required repairs, but that did not deter it from springing into action to resume work and help affected employees. The Business Continuity Plan was triggered and many employees had to either work from home, from the Disaster Recovery site in Kfour or from temporary premises/offices.

HR’s role post this traumatic tragedy consisted in providing employees with psychosocial expert support through a direct hotline helping them cope with the moral repercussions. In parallel, HR compiled affected employees’ material losses, in coordination with concerned stakeholders at the Bank, for estimation and compensation purposes.

To cope with these trying times, Management had to make some difficult decisions for the Bank’s continuation and business survival. Several branches had to be closed to decrease operational cost and affected employees were closely supported by HR and redeployed to other functions.

On a final note, the Bank continued to stand by its employees, ensuring their moral and financial wellbeing during such harsh economic and social times.

2020 ended but expectations are that its ripple effects will have severe ramifications on 2021 before a shed of positivity re-emerges on all levels. The Human Resources team of Bank Audi is confident that health and business success will prevail thanks to the awareness, values and dedication of its Human Capital.

ODEA BANK

In 2020, Odea Bank’s HR practices continued to be shaped around Management’s strong belief that Human Capital is the Bank’s most valuable asset for success. Within that scope, HR continued to closely monitor the needs of business lines and provided guidance and counseling to employees to help improve their performance, manage their careers effectively, and work more efficiently. In addition, HR contributed to efforts aiming at increasing cooperation and creating synergies between business units through internal communication.

During the COVID-19 pandemic, HR gave priority to protecting employees’ health, keeping their spirits and safety high, and continuing frequent and open communication. Employees were regularly contacted by HR to inquire about their health and needs; face-to-face interviews were also held to provide support and maintain employees’ morale and motivation. The HR team carried out online branch visits to support employees who had to work during this challenging period.

A 24/7 “Employee Support Line” program was put in place for employees to have access to expert services including psychological counseling, health, financial consultancy and technological support.

It is Management’s belief that one of the most important factors behind its success lies in an effective organisational structure which is strongly supported by a fair, objective and efficient reward system. During 2020, salary reviews and bonus studies were carried out taking into consideration average wages in the banking sector, job complexity and job content across all positions, as well as performance indicators; all well-adjusted within the annual budget.

8.0. | COMPLIANCE

From a compliance perspective, the year 2020 was characterised by a special set of challenges. Indeed, the severe financial, economic and fiscal crises that emerged since the last quarter of 2019 have caused major disruptions including the development of parallel currency markets with different exchange rates for the Lebanese Pound and the introduction of de facto currency controls (in effect since November 2019), with outflows of US Dollars being restricted to the payment for priority imports (wheat, medicine, gasoline etc.). All of the above had a significant adverse impact on Lebanese banks and led to major changes in customers’ behaviour in the Lebanese domestic market, with increasing operational implications. The aforementioned difficulties were exacerbated by the operational challenges that resulted from the sanitary measures adopted to fight the COVID-19 pandemic.

The Board of Directors and the Senior Management of Bank Audi have accompanied the changes with increased scrutiny and continued focusing on preventing money laundering and fighting the financing of terrorism, and on compliance with laws and regulations. As in previous years, the Compliance function has supported the Board and Management, achieving this notably through:

1. Verifying the implementation of the Enterprise-Wide Compliance Program that aims at maintaining positive relationships with regulators and correspondent banks alike (local and international).

Through Odea Bank’s Career Management policy, employees had opportunities for vertical and horizontal moves with corresponding authorities and responsibilities in alignment with their competency development.

Guidance and personal development opportunities were also provided to employees in accordance with their competencies and areas of expertise, noting that internal resources have priority among applications for new career opportunities within the organisation.

In addition, the “Employer Branding” project was initiated throughout the Bank in 2020 in order to transform employees’ opinions into corporate success. The entire process was carried out by an independent research company within the framework of confidentiality principles, and the evaluations were handled by Senior Management and HR who planned to take action on the necessary issues.

Considering employee training and development as one of the most important factors of the Bank’s success, HR planned and conducted a comprehensive range of training activities in order to contribute to its staff’s advancement and development. In order to facilitate the learning process, all trainings were provided on online platforms due to the pandemic. Professional development of all employees kept being supported by the "e-Odea Human Resources Training Platform" and “Vide'O” e-learning platforms.

2. Verifying that risks deriving from heightened regulatory scrutiny over the various areas of financial crime compliance, at both local and international levels, are appropriately monitored, tested and managed, with suitable mitigating measures effectively implemented.

3. Tailoring the Bank’s practices of (i) Anti-Money Laundering and Combatting the Financing of Terrorism, (ii) Sanctions compliance, (iii) Capital Markets compliance, (iv) Tax compliance, (v) Anti-Bribery and Corruption, and (vi) broader Regulatory Compliance, to the rising risks.

4. Monitoring and minimising the Sanctions risk exposure.

5. Monitoring abidance by compliance standards and by compliance policies and procedures.

6. Engaging with the Group’s Board of Directors (through the Board Compliance & AML/CFT Committee, and other committees of the Board) by providing extensive reporting of compliance risks and follow-up on corrective or improvement actions across the Group.

7. Coordinating with the Group Executive Committee and with Senior Management at group and entity levels, for the purpose of securing existing compliance controls and implementing risk-based controls.

8. Supporting all business lines on the various initiatives to mitigate the effects of the crisis, and provide advice on matters with franchise implications.

9. Raising employees’ awareness across businesses, functions and entities on compliance matters, notably in connection with laws, regulations and other relevant compliance standards.
10. Coordinating with the Risk function and with the Internal Audit function to reinforce the control framework and ensure a common risk approach by the various lines of defense.

11. etc.

9.0. | CORPORATE SOCIAL RESPONSIBILITY

The past year has been uniquely confronting for the customers and communities we serve, dealing with disruptions unparalleled in most of our lifetimes. In our region, the dramatic health and economic impacts of COVID-19 came on top of specific geo-political unrests, the Beirut Port explosion during the summer, and the persisting Lebanese financial and economic crisis.

These high profile incidents prompted organisations like Bank Audi to review their business model and appraise their role in the market place. Priority focus was given, more than ever, to improving governance, accountability and culture. We are making sustainable progress by working towards setting new and right foundations in place, and are in line with the directives of our regulator. The road ahead appears to

be long and fraught with bump, but we remain confident in our ability to weather this storm and achieve the best possible outcome given the circumstances.

Bank Audi and its people were tested and we are proud of how they have responded during these defining moments, when supporting the economy and our communities became a major task. Today, we are united behind common values that are interpreted into our unique focus: safeguarding our communities in times of dire need. Our principle-led approach entrenches our values of integrity, accountability, and commitment to diversity and inclusion in the decisions we make every day.

IN LEBANON

In times of severe crisis, like the one Lebanon has witnessed in 2020, Bank Audi continues to sustain its compliance to ISO 26000 Social Responsibility standards and the UN Global Compact (UNGC) Principles, and maintained membership in The Global Reporting Initiative (GRI) Standards as part of the Gold Community.

As an active member in the UNGC Lebanon Network’s Board of Directors, we added the UN Women Empowerment 7 principles to our commitment towards SDG5 – “Gender Equality”, and activated the related Target Gender Equality Project. We are pleased to lead this initiative as a driver of implementing responsible and sustainable business practices and maximising positive impacts for women. Internally, our gender parity of 47% female and 53% male employment, coupled with a 22% female representation at Board level, are above regional average measured indicators. Externally, we proudly partner with 29% women-owned small businesses. With this pledge at benefit, awareness initiatives include mobilising the entire Management and staff for the “White Ribbon Campaign – Men Against Violence”.

At the local network level of the UNGC, Bank Audi is, since 2017, goalkeeper for SDG 8 – “Decent Work and Economic Growth” – where we are SDG Council Members. Additionally, we maintain our pledge to three more Sustainable Development Goals (SDGs) including “Quality Education” (SDG 4), “Industry, Innovation and Infrastructure” (SDG 9), and “Climate Action” (SDG13). These goals are perfectly matched and aligned to our five CSR pillars which embrace transparency and the application of environmental and social management systems across our compliance processes.

Human Development projects helped maintain the Bank’s position as a non-discriminatory and equal opportunity employer of choice in the Lebanese private sector, with special empowerment to youth and entrepreneurs. A living example of this is our participation in the UNGC’s Young SDG Innovators Program (YSIP), a 9-month program where three of our colleagues furthered their skills in project management, design thinking, efficient management of resources, and collaboration with other participating companies.

Community work remains the motivator behind our corporate volunteer program where our heroes contributed in fighting the rampant poverty in our country. We partnered with the UNGC Local Network, the Ministry of Social Affairs and the World Bank on the National Poverty Targeting Program (NPTP), an ongoing social assistance program developed to support Lebanese families living beneath extreme poverty. Our volunteers invested some 300 hours manning a dedicated call center for the project to liaise with potential donors, while Bank Audi matched each cent collected from the fundraising campaign.

As part of our drive towards a sustainable nation, we participated with Univeristé Saint-Joseph and its Faculty of Economy on the proposed CSR draft law deposited for vote at Parliament, to create a CSR Label and other incentivising government measures to recognise and reward sustainable projects once mandated from the private sector.

Under “Environmental Protection”, we pursued our Climate Action commitment through the measurement of our own carbon footprint for the ninth consecutive year, as well as our internal recycling initiative. We also pursued community recycling efforts by partnering on paper

collection for recycling, in addition to the glass debris resulting from the blast whereby 125 tons of glass where sent to local manufacturers and converted to useful artifacts.

In its objectives of sharing best practices and spreading good CSR governance, Bank Audi continues to participate in major national and regional conferences and workshops, thus becoming a benchmark among CSR practitioners and a natural mentor for several other institutions.

Lebanon 2020 was also shaped by three major events: a global one, the COVID-19 pandemic, and two local ones: the Beirut port explosion and the country’s centennial celebration.

COVID-19

In Lebanon, banking services are considered essential and are therefore being maintained despite the lockdown and social distancing measures. Our engagement towards our community was further extended with countermeasures adopted to maintain staff health and safety, minimise risks, and ensure business continuity to our clients. At times, most employees had to work from home, with provided teleworking solutions that allowed secure remote access to the Bank’s systems. To mitigate cyber risks, security best practices based on INTERPOL and US-CERT were shared with all employees with a view to protecting data integrity and confidentiality.

When at work, keeping staff alert and aware was of paramount importance. A bank-wide campaign was launched across several touch points to raise awareness on the virus and on how to prevent its spread. Naturally, all the Bank’s premises and branches were geared with necessary sanitisation and protection tools, and constantly disinfected. While our clients started to seek alternative delivery channels, Bank Audi made sure to staff up its Contact Center 24/7 and was the only institution offering a variety of contact options from WhatsApp chat, email, and chatbot services on Facebook messenger. The number of daily calls and messages peaked at 12,000 calls a day from the usual 3,000 daily calls. Nevertheless, the efficient measures implemented proved to be adequate to make sure daily operations are running smoothly, and client needs are answered at all times, working around governmental curfews, while taking all safety measures.

Using our “Bank Audi Community” Facebook group, we shared articles, updates and useful links on COVID-19. It gave our employees the chance to consult various professionals through 10 live sessions with experts on family medicine, immunity-boosting diets, psychological and physical wellbeing, mental health or psychosocial issues. Special medical sessions were also provided on more specialised points such as pregnancy, newborn-related concerns... Family coaching, environmental prevention and live cooking sessions were added on-demand. Articles on “Essential Tips for Working from Home” and “Tips to Stay Healthy during Lockdown” were featured in our monthly e-newsletter.

In our relentless effort with respect to COVID-19 prevention and supporting our frontline healthcare workers and institutions, we contributed in the telethon fundraising campaign for the Hariri Hospital, the Red Cross and the Civil Defense. By the same token, we donated locally produced ventilators to seven other renowned hospitals across the country to help in their efforts and fill their gap in equipment needs.

We also engaged with the “Sound of Resilience” concert produced by the Baalbeck Festival: a musical message from Lebanon to the world despite the economic crisis and pandemic. The concert, which took place at the Baalbek temple on 5 July 2020, featured the Lebanese Philharmonic Orchestra and choirs from the Antonine and Notre-Dame universities, along with the Lebanese group Qolo Atiqo.

Beirut Port Blast

Our action started immediately after the explosion, with volunteering efforts in response to the different calls for help by NGOs and other neighborhood organisations to clean rubble and help restore residences, donate blood, food and clothes, as well as raise funds for reconstruction. We also partnered with “Offre-Joie”, one of the major reconstruction NGOs acting on the ground, and contributed heavily in supporting the rehabilitation of destroyed residences in two poor districts, Quarantina and Gemayzeh.

During the aftermath of the blast, we participated in the creation of “Recollect Beirut”, a classical music concert involving regional choirs from

all over the country, to convey a message of courage, love and hope. The concert, which took place at the famous Villa Sursock – a heavily damaged historic residence itself– on 20 September 2020, was broadcast live on primetime TV and on social media platforms. Similarly, we hosted “L’Art blessé” exhibition at Villa Audi, a new artistic expression that draws inspiration from Kintsugi and trauma therapy, showcasing damaged, inspired and restored artworks resulting from the Beirut Port explosion.

Lebanon Centenary

2020 marked the 100th year of Lebanon’s state birth declaration. On that occasion, Bank Audi partnered with leading TV station LBCI to bring to life a historical tribute to the last 100 years, through creating a mini series made up of 100 episodes that tackled various topics and shed light on the major milestones, achievements and personalities that shaped the Lebanese cultural, artistic, economic, and political Lebanese landscape since 1920. The series aired daily on TV and was supported by an online campaign generating a widespread positive sentiment, which constituted a much needed glimpse of hope during a gloomy year.

IN TURKEY

In addition to its commitment to sustainable development, Odea Bank embraces Corporate Social Responsibility and actively works for the community and society it operates in. The Bank takes on a proactive and collaborative role to improve the quality of life, the public welfare, cultural development, as well as social well-being.

Odea Bank focuses on issues such as gender equality, organisational management, human rights, business practices, environment, fair business practices, consumer problems and social participation, at the international level.

During the fiscal year 2020, Odea Bank realised many activities as part of its commitment to support the Turkish society. In this context, it donated TRY 1 million to the Ministry of Family, Labour and Social Services to combat the COVID-19 pandemic.

And because gender equality is learned at early ages, Odea Bank initiated the “Fair Tales” project with the promise of an equal future for children. In this context, the Bank chose to rewrite the tales Rapunzel, Cinderella and Little Red Riding Hood from a gender equality perspective. The redrafted tales met their readers at all Odea Bank branches, as well as on the Bank’s website.

Since 2017, Odea Bank has cooperated with TEMA Foundation in a unique green initiative whereby the Bank’s Oxygen Account holders are given the opportunity to donate saplings to the foundations’

nature awareness project, while promoting children’s education on the natural environment. Odea Bank celebrated the Oxygen Account’s 6th anniversary in 2020 by donating 500 saplings to TEMA Foundation within the framework of social media activities and with the view of continuing to guarantee the oxygen of the future with the Oxygen Account. A total of 25,000 saplings were donated as of 2020.

Odea Bank also contributed to planting 5,000 saplings to offset the effect of forest fires in the Hatay region.

In a different initiative, the Bank’s Etiler branch had special equipment installed to change its lighting colours in such a way as to raise awareness on the International Day for the Elimination of Violence against Women and on World Autism Awareness Day.

And last but not least, as an original art platform, “O’Art” is a significant representation of Odea Bank’s positioning as sponsor of the arts. “O’Art”, which has been hosting important exhibitions since 2015, makes all disciplines of today’s art accessible to everyone in various mediums, including the criticism of today’s problems with regards to the socio-cultural system. Odea Bank continued to support both art and artists by making live broadcasts on social media entitled “Odea Bank Art Talks”, along with art events organised online during the 2020 COVID-19 pandemic. Odea Bank continues its exhibition preparations for 2021, and will pursue its mission to share art with all art lovers, focusing on contemporary art and artists.

IN EGYPT

For Bank Audi Egypt, Corporate Social Responsibility is the way the Bank integrates social, environmental and economic concerns into its values, culture, decision-making, strategy and operations with a view to establishing better practices within the Bank, helping improve society and ensuring long-term superior value to all stakeholders (employees, customers, community, shareholders and third parties).

In 2020, the Bank continued to positively impact the Egyptian community by maintaining its vital role in advancing the United Nations’ Sustainable Development Goals– “SDGs”. This comes in line with Egypt’s commitment to achieve the SDGs “Egypt’s Vision 2030”, whereby the country’s three-dimensional strategic plan (economic, social and environmental) is based on ten pillars which broadly cover SDGs.

The activities of Bank Audi Egypt during 2020 focused on a number of defined goals including SDG3 “Ensure healthy lives and promote well-being”, and SDG 9 “Industry, Innovation and Infrastructure”. In addition to that, the Bank continued to support the Central Bank of Egypt’s initiatives to boost financial inclusion in the country.

Corporate Social Responsibility activities held in 2020 included:

SDG3 Good Health and Well-being:

As the year 2020 witnessed the spread of COVID-19, Bank Audi Egypt took a number of precautionary measures to ensure business continuity and guarantee the well-being and safety of employees and customers. Some of these measures were:

1. Dedicating a VIP entrance for employees who wish to take the COVID-19 test in Ain Shams specialised hospital for free.
2. Bank Audi Egypt has extended working from home guidance to all employees whose jobs allow them to do so. Each department head had to choose a number of employees to work from home. Working from home employees are granted a VPN/email access.
3. Colleagues who suffer from chronic diseases (heart, kidney, liver, respiratory system, tumors, or any disease that affects the immune system), and female employees caring for a child younger than 12 years old are given the priority to be among the 50% of the working from home workforce.

4. Detergents and paper cups were provided in headquarters and branches to avoid the spread of the pandemic.

5. Customers and employees are requested to wear face masks prior to entering the Bank’s branches.

6. The Bank underwent a comprehensive sterilisation process in all its premises. This measure was implemented to ensure the health and safety of our staff. A specialised company conducted the sterilisation with products ensuring effective disinfection without causing any harm to the staff.

7. Employees' fingerprint scans were suspended and replaced by a newly developed system available on all computers. Employees just need to sign in to the system to record their daily attendance and leave.

SDG9 Industry, Innovation and Infrastructure:

- During the year 2020, Bank Audi Egypt focused on developing and initiating a number of digital services. That comes in line with the Bank’s efforts to offer the most innovative electronic payment solutions in Egypt, to embrace the country’s unbanked population in the formal economy, and to assist in boosting Financial Inclusion in Egypt. These distinctive products and services include Audi Online, Audi2 Pay, and the Customer On-Boarding mobile application.

- The Bank participated in the Cairo International Telecommunication Exhibition Cairo ICT 2020 between 22 and 25 November 2020. This participation comes from its belief in the importance of supporting the State’s plan and the Central Bank of Egypt towards digital and technological transformation in all sectors of the Egyptian economy.

Civic Role and Community Development

Because Bank Audi Egypt strongly believes in civic role and community development, which are among its core values, the Bank donated EGP 20 million to the Federation of Egyptian banks in contribution to the country’s anti-COVID-19 efforts in 2020.

03

FINANCIAL STATEMENTS

RESOLUTIONS PROPOSED BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL ASSEMBLY OF SHAREHOLDERS

On 5 May 2021, the Board of Directors of the Bank adopted the following proposals to the Annual General Assembly of shareholders relating to the approval of the financial statements and the appropriation of profits:

Proposal No. 1

The Ordinary General Assembly of shareholders of the Bank is invited to approve the Bank's accounts, in particular the balance sheet and the profit and loss statement as at and for the year ended on 31 December 2020, and to grant full discharge to the Chairman and members of the Board of Directors in respect of their management of the Bank's activities during the year 2020.

Proposal No. 2

The Ordinary General Assembly of shareholders of the Bank is invited to approve the transfer of the 2020 annual results in deduction of previously retained earnings, and to authorise the transfer of other amounts to retained earnings, to reserve appropriated to capital increase, or to reserve for foreclosed assets, all pursuant to the relevant circulars or memos of the Lebanese Banking Control Commission.

Other Proposals to the General Assembly

The Board of Directors of the Bank also adopted other proposals to the Annual General Assembly of shareholders to the effect of: (i) ratifying loans and transactions that are subject to the approval of the Ordinary General Assembly of shareholders; (ii) authorising the entry into similar loans and transactions during the year 2020; (iii) determining the remuneration of the Directors; and (iv) other matters falling within the prerogatives of the Ordinary General Assembly, all as more fully described in the present Annual Report, in the enclosed financial statements, and in the other supporting documents addressed to the General Assembly and published separately.



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK AUDI sal

Adverse Opinion

We have audited the consolidated financial statements of Bank Audi SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of matters discussed in the "*Basis for Adverse Opinion*" section of our report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

- As disclosed in Note 53.3 to the consolidated financial statements, as at 31 December 2020, the Group holds balances with the Central Bank of Lebanon amounting to LBP 16,476 billion, a portfolio of Lebanese government treasury securities and Certificate of deposits (under financial assets at amortized cost) totaling LL 7,323 billion, a portfolio of loans to the private sector amounting to LBP 3,898 billion and other balances with banks and other assets amounting to LBP 1,519 billion, concentrated in Lebanon which represent 55% of the Group's total assets as at 31 December 2020 (31 December 2019: 60%). In addition, balances with the Central Bank of Lebanon include accumulated fair value adjustments from hedge accounting amounting to LBP 264 billion disclosed in Note 19 and other assets include a receivable from Central Bank of Lebanon amounting to LBP 1,334 billion recognized based on the estimated present value of the future cash flows expected to be received from the leverage arrangements in local currency entered into with the latter against a simultaneous purchase of Lebanese government Eurobonds and time deposits with the Central Bank of Lebanon that have been derecognized as further described in Notes 23, 29, and 31.

As disclosed in Note 1, the accompanying consolidated financial statements do not include adjustments, as required by IFRS 9 – Financial Instruments, to the carrying amounts of the above assets and related disclosures that would result from resolution of the uncertainties described in Note 1, which prevailed since the last quarter of 2019 and the future effects of the economic crisis and the implementation of government reforms and restructuring plans.

Also, as disclosed in Note 48, management was unable to produce a faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements consequently do not include the fair value disclosures required by IFRS 13 – Fair Value Measurement.



Basis for Adverse Opinion (continued)

Had such adjustments and disclosures been determined and made, many elements and related disclosures in the accompanying consolidated financial statements for the year ended 31 December 2020 and the year ended 31 December 2019 would have been materially different. The effects of the resolution of these uncertainties on the carrying amounts of the assets and the related disclosures in these consolidated financial statements have not been determined. Our opinion for the year ended 31 December 2019 was modified for same reasons explained above.

2. Further, as disclosed in Note 2 to the consolidated financial statements, the Group did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies in the accompanying consolidated financial statements for the year ended 31 December 2020. Had the Group applied IAS 29, many elements in the accompanying consolidated financial statements, including the comparative financial information for the year ended 31 December 2019, would have been materially different and also the disclosures for the year ended 31 December 2020 and 31 December 2019 would have been materially affected. The effects on the consolidated financial statements arising from the failure to apply IAS 29 have not been determined.
3. As disclosed in Note 25 to the consolidated financial statements, the Group holds an investment in a Lebanese associate carried at LBP 69 billion, whose operations are mainly concentrated in Lebanon. The Group did not carry out an impairment test, as required by IAS 36 – Impairment of Assets, on the carrying amount of this investment and we did not obtain recent audited financial statements of this associate. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts.
4. The events and conditions and, practices that would not qualify as normal course of business in a non-crisis environment described in Note 1 and the matters described in paragraph 1 above, affect the financial position, liquidity, solvency and profitability of the Group, expose the Group to increased litigation and regulatory risks and represent events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern. Our opinion for the year ended 31 December 2019 was modified for same reasons explained above.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Emphasis of Matter

We draw attention to Notes 1 and 54A to the consolidated financial statements, which describe that the Group's assets and liabilities denominated in foreign currency are translated to Lebanese Pounds as per the accounting policy on foreign currency transactions, at the official exchange rate prevailing at the end of the reporting period and that the actual realization and settlement of these assets and liabilities, respectively, could be materially different.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2020. Except for the matters described in the “Basis for Adverse Opinion” section of our report, we have determined that there are no other key audit matters to communicate in our report.

Other Information Included in the Group's 2020 Annual Report

Other information consists of the information included in the Group's Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. As described in the “Basis for Adverse Opinion” section of our report, the consolidated financial statements do not include adjustments to the carrying amounts of the assets concentrated in Lebanon and related disclosures as a result of the resolution of the uncertainties stated in Note 1. Further, the Group did not apply the requirements of IAS 29 in the consolidated financial statements. We have concluded that the other information is materially misstated for the same reasons with respect to the amounts or other items in the Group's 2020 Annual Report affected by these matters.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young
Ernst & Young

6 May 2021
Beirut, Lebanon

BDO, Semaan, Gholam & Co.
BDO, Semaan, Gholam & Co.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 LBP Million	2019 ^(*) Restated LBP Million
CONTINUING OPERATIONS			
Interest and similar income	4	2,995,084	4,057,097
Interest and similar expense	5	(1,666,771)	(2,652,250)
Net interest income		1,328,313	1,404,847
Fee and commission income	6	211,648	266,844
Fee and commission expense	7	(995,546)	(51,964)
Net fee and commission (expense) income		(783,898)	214,880
Net gain (loss) on financial assets at fair value through profit or loss	8	336,289	(12,173)
Net loss on sale of financial assets at amortised cost	9	(139,521)	(2,260)
Non-interest revenues from financial assets at fair value through other comprehensive income		32	2,083
Share of profit of associates under equity method	25	330	9,275
Other operating income	10	27,349	21,928
Total operating income		768,894	1,638,580
Net impairment loss on financial assets	11	(262,688)	(1,826,314)
Net operating income		506,206	(187,734)
Personnel expenses	12	(407,373)	(425,335)
Other operating expenses	13	(230,120)	(269,001)
Depreciation of property and equipment and right-of-use assets	26	(64,558)	(72,810)
Amortisation of intangible assets	27	(21,640)	(19,488)
Losses on assets obtained in settlement of debt	28	(465)	(15,522)
Total operating expenses		(724,156)	(802,156)
Operating loss		(217,950)	(989,890)
Net gain (loss) on revaluation and disposal of fixed assets		10	(5,275)
Loss before tax from continuing operations		(217,940)	(995,165)
Income tax	14	(100,575)	(48,974)
Loss for the year from continuing operations		(318,515)	(1,044,139)
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations, net of tax	45	100,255	136,451
Loss for the year		(218,260)	(907,688)
Attributable to:			
Equity holders of the parent		(225,147)	(912,177)
Loss for the year from continuing operations		(325,402)	(1,048,628)
Profit for the year from discontinued operations	45	100,255	136,451
Non-controlling interests		6,887	4,489
Profit for the year from continuing operations		6,887	4,489
Profit for the year from discontinued operations		-	-
		(218,260)	(907,688)
Loss per share:			
		LBP	LBP
Basic and diluted loss per share	15	(413)	(2,289)
Basic and diluted loss per share from continuing operations	15	(596)	(2,631)
Basic and diluted earnings per share from discontinued operations	15	183	342

^(*) Restated for the effect of separate presentation of profit from discontinued operations and share information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 LBP Million	2019 ^(*) Restated LBP Million
Loss for the year from continuing operations		(318,515)	(1,044,139)
Profit for the year from discontinued operations		100,255	136,451
Other comprehensive income (loss) that will be reclassified to the income statement in subsequent periods from continuing operations			
<i>Foreign currency translation</i>			
Exchange differences on translation of foreign operations		(125,511)	(103,398)
Net gain on hedge of net investments		-	2,212
Net foreign currency translation		(125,511)	(101,186)
<i>Cash flow hedge</i>			
Net hedging losses arising during the year	19	(2,909)	(4,408)
Loss reclassified to income statement	19	2,227	8,311
Tax effects	14	(417)	(1,829)
Net change in cash flow hedge		(1,099)	2,074
<i>Debt instruments at fair value through other comprehensive income</i>			
Change in fair value during the year		7,196	18,238
Tax effects	14	(1,104)	(4,496)
Net gain on debt instruments at fair value through other comprehensive income		6,092	13,742
Total other comprehensive loss that will be reclassified to the income statement in subsequent periods from continuing operations		(120,518)	(85,370)
Other comprehensive income (loss) that will not be reclassified to the income statement in subsequent periods from continuing operations			
<i>Remeasurement (losses) gains on defined benefit plans</i>			
Actuarial (loss) gain on defined benefits plans	37	(5,057)	4,549
Tax effects	14	735	(11)
Net remeasurement (losses) gains on defined benefit plans		(4,322)	4,538
<i>Equity instruments at fair value through other comprehensive income</i>			
Net unrealised (losses) gains		(1,863)	3,956
Tax effects	14	612	(130)
Net unrealised (losses) gains on equity instruments at fair value through other comprehensive income		(1,251)	3,826
<i>Revaluation of lands and buildings</i>			
Revaluation loss		-	(57,990)
Tax effects	14	-	(1,800)
Net loss on revaluation of lands and buildings		-	(59,790)
Total other comprehensive loss that will not be reclassified to the income statement in subsequent periods from continuing operations		(5,573)	(51,426)
Other comprehensive loss for the year from continuing operations, net of tax		(126,091)	(136,796)
Other comprehensive income for the year from discontinued operations, net of tax		3,217	108,593
Total comprehensive loss for the year from continuing operations, net of tax		(444,606)	(1,180,935)
Total comprehensive income for the year from discontinued operations, net of tax	45	103,472	245,044
Total comprehensive loss for the year, net of tax		(341,134)	(935,891)
Attributable to:			
Equity holders of the parent		(311,289)	(920,698)
Non-controlling interests		(29,845)	(15,193)
		(341,134)	(935,891)

^(*) Restated for the effect of separate presentation of profit from discontinued operations and share information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	2020 LBP Million	2019 LBP Million
ASSETS			
Cash and balances with central banks	16	19,486,210	23,169,519
Due from banks and financial institutions	17	2,167,959	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	18	264,246	700,457
Derivative financial instruments	19	218,820	290,924
Financial assets at fair value through profit or loss	20	392,067	381,082
Loans and advances to customers at amortised cost	21	9,142,352	15,461,671
Loans and advances to related parties at amortised cost	22	108,200	140,489
Debtors by acceptances		17,892	657,579
Financial assets at amortised cost	23	7,787,493	12,318,944
Financial assets at fair value through other comprehensive income	24	1,518,373	1,154,893
Investments in associates	25	113,923	121,139
Property and equipment and right-of-use assets	26	635,928	997,186
Intangible assets	27	81,081	115,144
Assets obtained in settlement of debt	28	203,160	289,989
Other assets	29	1,685,441	1,492,867
Deferred tax assets	14	53,656	87,126
Goodwill	30	42,384	42,422
Assets held for sale	45	9,493,147	-
TOTAL ASSETS		53,412,332	59,599,337
LIABILITIES			
Due to central banks	31	4,024,308	5,651,962
Due to banks and financial institutions	32	1,375,285	1,556,504
Due to banks under repurchase agreements	32	143,888	42,969
Derivative financial instruments	19	446,793	372,102
Customers' deposits	33	32,290,695	44,336,560
Deposits from related parties	34	163,019	276,310
Debt issued and other borrowed funds	35	1,317,813	1,393,639
Engagements by acceptances		17,892	657,579
Other liabilities	36	446,253	584,064
Current tax liabilities	14	78,748	28,325
Deferred tax liabilities	14	6,018	43,878
Provisions for risks and charges	37	150,599	178,819
Liabilities held for sale	45	8,502,601	-
TOTAL LIABILITIES		48,963,912	55,122,711
SHAREHOLDERS' EQUITY – GROUP SHARE			
Share capital – common shares	38	982,859	667,581
Share capital – preferred shares	38	10,020	10,020
Issue premium – common shares	38	902,290	883,582
Issue premium – preferred shares	38	894,480	894,480
Cash contribution to capital	39	72,586	72,586
Non-distributable reserves	40	2,209,661	2,025,201
Distributable reserves	41	17,270	433,057
Treasury shares	43	(9,190)	(9,190)
Retained earnings		767,489	1,466,788
Other components of equity	44	(753,456)	(1,252,582)
Reserves related to assets held for sale	45	(587,877)	-
Result of the year		(225,147)	(912,177)
NON-CONTROLLING INTERESTS	46	167,435	197,280
TOTAL SHAREHOLDERS' EQUITY		4,448,420	4,476,626
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		53,412,332	59,599,337

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 LBP Million	2019 LBP Million
OPERATING ACTIVITIES			
Loss before tax from continuing operations		(217,940)	(995,165)
Profit before tax discontinued operations	45	178,080	187,622
Adjustments for non-cash items:			
Depreciation and amortisation	26 & 27	109,804	111,542
Impairment of assets acquired in settlement of debt	28	-	15,522
Net gain on financial instruments at amortised cost	9	139,521	2,260
Net impairment losses on financial assets	11	296,659	1,871,778
Other income resulting from leverage arrangements	8	(295,556)	-
Impairment of investments in associates	13	7,387	19,725
Share of net profit of associates	25	(330)	(9,275)
Net gain (loss) on disposal of assets acquired in settlement of debt		465	(222)
Net (loss) gain on sale or disposal of fixed assets		(205)	5,734
Provision for risks and charges		18,606	23,954
Write-back of provisions for risks and charges	10	(2,897)	(378)
Loss (gain) on revaluation of interest retained		-	325
Impairment unallocated under IFRS 5	45	34,848	-
		268,442	1,233,422
Changes in operating assets and liabilities:			
Balances with the central banks, banks and financial institutions maturing in more than 3 months		(1,277,312)	(5,505,872)
Change in derivatives and financial assets held for trading		13,183	(74,906)
Change in loans and advances to customers and related parties		2,569,712	3,470,451
Change in other assets		64,258	76,502
Change in deposits from customers and related parties		(3,861,197)	(3,560,315)
Change in other liabilities		(9,513)	65,712
Change in provisions for risks and charges		7,573	-
Cash (used in) from operations		(2,224,854)	(4,295,006)
Provisions for risks and charges paid		(28,834)	(15,926)
Taxation paid		(76,895)	(167,176)
Net cash (used in) from operating activities		(2,330,583)	(4,478,108)
INVESTING ACTIVITIES			
Change in financial assets – other than trading	26 & 27	1,975,783	2,066,067
Purchase of property and equipment and intangibles		(47,732)	(142,762)
Proceeds from sale of an associate		-	11,238
Proceeds from sale of property and equipment and intangibles		36,248	18,562
Proceeds from sale of assets obtained in settlement of debt		125,437	-
Net cash from (used in) investing activities		2,089,736	1,953,105
FINANCING ACTIVITIES			
Capital increase	38	315,278	-
Cost of issuance of capital	41	(3,638)	-
Dividends paid	38	-	(393,228)
Treasury shares transactions		-	(175)
Debt issued and other borrowed funds	35	(75,826)	99,950
Lease liability payments	36	(37,261)	(42,177)
Net cash used in financing activities		198,553	(335,630)
CHANGE IN CASH AND CASH EQUIVALENTS		(42,294)	(2,860,633)
Foreign exchange difference		(91,750)	(42,265)
Cash and cash equivalents at 1 January		6,513,047	9,415,945
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	47	6,379,003	6,513,047
Operational cash flows from interest and dividends			
Interest paid		(1,869,009)	(3,248,411)
Commission paid		(951,831)	-
Interest received		3,428,862	4,811,722
Dividends received		253	2,158

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to the Equity Holders of the Parent																
	Share Capital - Common Shares	Share Capital - Preferred Shares	Issue Premium - Common Shares	Issue Premium - Preferred Shares	Warrants Issued on Subsidiary Shares	Cash Contribution to Capital	Non- distributable Reserves	Distributable Reserves	Treasury Shares	Retained Earnings	Other Components of Equity	Reserves Related to Assets Held for Sale	Result of the Year	Total	Non- controlling Interests	Total Shareholders' Equity	
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	
Balance at 1 January 2020	667,581	10,020	883,582	894,480	-	72,586	2,025,201	433,057	(9,190)	1,466,788	(1,252,582)	-	(912,177)	4,279,346	197,280	4,476,626	
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	(225,147)	(225,147)	6,887	(218,260)	
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	(86,142)	-	-	(86,142)	(36,732)	(122,874)	
Total comprehensive loss	-	-	-	-	-	-	-	-	-	-	(86,142)	-	(225,147)	(311,289)	(29,845)	(341,134)	
Appropriation of 2019 profits	-	-	-	-	-	-	(9,179)	(110,125)	-	(792,873)	-	-	912,177	-	-	-	
Discontinued operations (Note 45)	-	-	-	-	-	-	-	-	-	-	587,877	(587,877)	-	-	-	-	
Capital increase	315,278	-	-	-	-	-	315,278	(315,278)	-	-	-	-	-	315,278	-	315,278	
Cost of capital	-	-	-	-	-	-	-	(3,638)	-	-	-	-	-	(3,638)	-	(3,638)	
Transfer between reserves	-	-	-	-	-	-	(7)	(35,724)	-	38,340	(2,609)	-	-	-	-	-	
Related to the merger (Note 46)	-	-	18,708	-	-	-	(122,270)	49,005	-	54,557	-	-	-	-	-	-	
Other movements	-	-	-	-	-	-	638	(27)	-	677	-	-	-	1,288	-	1,288	
Balance at 31 December 2020	982,859	10,020	902,290	894,480	-	72,586	2,209,661	17,270	(9,190)	767,489	(753,456)	(587,877)	(225,147)	4,280,985	167,435	4,448,420	
Balance at 1 January 2019	667,581	10,020	883,582	894,480	12,629	72,586	1,919,796	430,685	(9,073)	1,249,915	(1,244,056)	-	753,260	5,641,405	217,363	5,858,768	
Impact of IFRS 16 at 1 January	-	-	-	-	-	-	-	-	-	(36,532)	-	-	-	(36,532)	(4,890)	(41,422)	
Restated balance at 1 January 2019	667,581	10,020	883,582	894,480	12,629	72,586	1,919,796	430,685	(9,073)	1,213,383	(1,244,056)	-	753,260	5,604,873	212,473	5,817,346	
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	(912,177)	(912,177)	4,489	(907,688)	
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	(8,521)	-	-	(8,521)	(19,682)	(28,203)	
Total comprehensive loss	-	-	-	-	-	-	-	-	-	-	(8,521)	-	(912,177)	(920,698)	(15,193)	(935,891)	
Appropriation of 2018 profits	-	-	-	-	-	-	137,403	-	-	222,629	-	-	(360,032)	-	-	-	
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	(330,478)	(330,478)	-	(330,478)	
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	(62,750)	(62,750)	-	(62,750)	
Cancellation of warrants	-	-	-	-	(12,629)	-	-	1,345	-	11,284	-	-	-	-	-	-	
Sale of an associate	-	-	-	-	-	-	-	1,626	-	3,838	(5,464)	-	-	-	-	-	
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	(5,459)	5,459	-	-	-	-	-	
Treasury shares transactions	-	-	-	-	-	-	-	(58)	(117)	-	-	-	-	(175)	-	(175)	
Transfer between reserves	-	-	-	-	-	-	(31,998)	(541)	-	32,539	-	-	-	-	-	-	
Other movements	-	-	-	-	-	-	-	-	-	(11,426)	-	-	-	(11,426)	-	(11,426)	
Balance at 31 December 2019	667,581	10,020	883,582	894,480	-	72,586	2,025,201	433,057	(9,190)	1,466,788	(1,252,582)	-	(912,177)	4,279,346	197,280	4,476,626	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

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1.0. | CORPORATE INFORMATION

Bank Audi sal (the Bank) is a Lebanese joint stock company registered since 1962 in Lebanon under No. 11347 at the Register of Commerce and under No. 56 on the banks’ list at the Central Bank of Lebanon. The Bank’s head office is located in Bank Audi Plaza, Omar Daouk Street, Beirut, Lebanon. The Bank’s shares are listed on the Beirut Stock Exchange. Effective 6 November 2020, the global depository receipts were delisted from the London SEAQ.

1.1. MACROECONOMIC ENVIRONMENT

The Group’s operations are mostly in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis, as well as deep recession that has reached unprecedented levels. Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on 7 March 2020, the Lebanese Republic announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US Dollar-denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon, significantly reduced credit lines to companies and withdrawals of cash to private depositors, all of which added to the disruption of the country’s economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses are downsizing, closing or going bankrupt, and unemployment and poverty are rising fast and have reached unprecedented levels.

The difficulty in accessing foreign currencies led to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 USD/LBP. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese Pound, impacting intensely the purchasing power of Lebanese citizens, and driving a currency crisis, high inflation and rise in the consumer price index.

During 2020, in an attempt to control the high rise in prices and to compensate for the loss in the purchasing power of the Lebanese people, the Central Bank of Lebanon, through several circulars, introduced the following measures:

LEBANESE GOVERNMENT’S FINANCIAL RECOVERY PLAN

On 30 April 2020, the Council of Ministers approved the Lebanese government’s Financial Recovery Plan (the Plan). The Plan relies on nine central and interrelated pillars, namely reviewing the peg policy; a comprehensive government debt restructuring; a comprehensive restructuring of the financial system addressing accumulated FX mismatches, embedded losses and resizing the banking sector (see below); a strong phased fiscal adjustment focused on improving tax compliance, streamlining expenditure and reforming the public sector;

The Bank, together with its subsidiaries (collectively “the Group”), provides a full range of Retail, Commercial, Investment and Private Banking activities through its headquarters, as well as its branches in Lebanon, and its presence in Europe, the Middle East and North Africa.

The consolidated financial statements were authorised for issue in accordance with the Board of Directors’ resolution on 5 May 2021.

- (a) Subsidised imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 USD/LBP (the official exchange rate).
- (b) Introduced the Platform Rate, currently at 3,900 USD/LBP, to be used only in specific circumstances.
- (c) Subsidised imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate.
- (d) Introduced exceptional measures for bank depositors to withdraw small amounts of cash in LBP from their “local” foreign currency bank accounts at the Platform Rate, but up to limits set by the Bank.

However, despite these efforts, inflation increased at an accelerating pace, eroding the real value of the local currency and “local” foreign currency bank accounts, and tossing Lebanon in hyperinflation and major economic collapse.

As a result of the unofficial capital controls, the multitude of exchange rates, the hyperinflation, and the potential repercussions of government reform measures on (i) the banks operating in Lebanon, and (ii) the Lebanese people’s net worth, their local businesses and their local bank accounts, the Lebanese market saw the need to differentiate between onshore assets and offshore assets, foreign currency bank accounts that are subject to unofficial capital controls and those that are not subject to capital controls, onshore liabilities and offshore liabilities. The need to differentiate is mostly due to the difference in the perceived real economic value. Hence the new terms in the Lebanese market, such as “local Dollars” to designate local US Dollars bank accounts that are subject to unofficial capital controls, and “fresh funds” to designate foreign currency cash and foreign currency bank accounts which are free from capital controls (as they are sourced from foreign currency cash and/or from incoming transfers from abroad).

growth-enhancing reforms promoting a productive economy and enhancing the competitiveness of the Lebanese economy; a social sector reform; an ambitious anti-corruption strategy; an environmental reform; and international financial assistance to close the large external financing gap and finance the development of the infrastructures that are necessary to support the growth of the economy. On 10 August 2020, the Lebanese government resigned following the massive explosion at the Beirut port. As of today, the Plan has not been implemented.

RESTRUCTURING OF THE BANKING SECTOR

As per the Plan, the preliminary global estimation of losses will result from the restructuring of the Central Bank of Lebanon and impairment of assets held at the Central Bank of Lebanon; the impact of the economic crisis and the impairment of the banks’ loans portfolio; and the government debt restructuring and impairment of the government securities portfolio.

An Asset Quality Review will be conducted to assess the impairment losses on the private loans portfolio of the banking sector. The impact of losses and the recapitalisation needs will be determined on a bank by bank basis when a more granular plan is drawn, and further measures related to bank deposits will be determined. On a bank by bank basis, the Plan stipulates that large depositors could be offered voluntarily (for part of their deposits):

- Conversion into their bank’s capital. New legal provisions will be needed.
- Conversion into tradable equity stakes in a newly established special Recovery Fund that will receive the proceeds of the ill-gotten assets tracking and recovery program.

ALTERNATIVE PLAN SUBMITTED BY THE ASSOCIATION OF BANKS IN LEBANON

The Association of Banks in Lebanon (ABL) has released its alternative plan for economic and financial recovery in Lebanon.

ABL’s contribution to the government’s Financial Recovery Plan rests on an IMF-supported two-pillar approach with a clearly phased and timely implementation: (i) an immediate balanced and effective immediate response addressing the external financing needs and putting the medium-term fiscal and debt path on a sustainable footing, while avoiding an internal debt default that would have damaging consequences on the Lebanese people and on confidence; (ii) the launch of long-overdue structural reforms in the coming months to promote sustainable and inclusive growth as the result of economic diversification.

The ABL plan envisages a settlement mechanism that would include several features for capitalization and settlement of government debt.

The ABL approach deploys five strategic priorities allowing a prompt and sustainable economic and financial recovery in the wake of expected IMF (or “the Fund”) Balance of Payments (“BoP”) support requested on May 1 by the government:

- I. A debt restructuring process that minimises the damaging consequences to the nearly 3 million domestic bank depositors and to the economy as a whole, while priming the economy for a faster recovery and higher medium-term potential growth.
- II. A sustainable medium-term fiscal strategy leaving a significant fiscal space to finance much needed social measures, including an expanded social safety net to fight poverty and concrete steps against social exclusion.
- III. A monetary and exchange rate unification policy that addresses the massive external imbalances while containing considerable inflationary pressures and avoiding hyperinflation.
- IV. A financial sector restructuring based on an orderly banking sector approach on a case-by-case basis when needed, upgrading regulatory matters to international standards.

- Conversion into long dated, subordinated bank obligations with no or limited interest.

Banks will be asked to propose to the authorities and relevant supervisory bodies business plans and restructuring/recapitalisation plans including mergers with or acquisitions by other domestic and foreign banks to address their structural funding issues and generate synergies. The new capital base will be rebuilt via capital raising in the market and a conversion of some deposits into shares. Fresh liquidity will be provided to the reorganised banking sector.

Conducting a full restructuring of the banking sector will require new legal powers for the government and the relevant supervisory bodies.

- V. A strong diversification strategy of the economy, as well as much needed structural reforms including anticorruption measures, a lower cost of doing business in the country, as well as reforms that reduce the size of the informal sector.

Beirut Port Explosion

On 4 August 2020, a large explosion occurred at the port of the city of Beirut, causing casualties and material damages across the capital of Lebanon. The Beirut port explosion affected several individuals and businesses, and contributed to further deterioration of the economic environment and disruption of businesses, leading to further Expected Credit Losses charges. The World Bank estimated the direct and indirect damages to the Lebanese economy as a result of the Beirut port explosion at circa USD 8 billion.

COVID-19

The COVID-19 pandemic has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. It has caused disruption to businesses and economic activities and increased the level of uncertainty in domestic and international markets. Regulators and governments across the globe have introduced schemes to provide financial support to parts of the economy most impacted by the COVID-19 pandemic.

In the case of the Bank, similar to many entities for which the operating environment is mostly in Lebanon, the impact of COVID-19 cannot be isolated and assessed independently from the economic crisis that the country is witnessing. COVID-19 is adding up to the severity of the economic downturn from a commercial, regulatory and risk perspective.

Future impairment charges, already subject to high uncertainty and volatility due to the severe crisis in Lebanon, may be subject to further uncertainty and volatility as a result of the COVID-19 pandemic and related containment and lockdown measures. More adverse economic

scenarios and macro-economic variables with higher probabilities are considered for Expected Credit Losses financial impact.

It remains unclear how this will evolve, and the Bank continues to monitor the situation closely. Any and all such events mentioned above

1.2. REGULATORY ENVIRONMENT

During 2020 and up to the date of the authorisation of issue of these financial statements, the Central Bank of Lebanon has issued several circulars to address the situations, mainly:

- Basic Circular 149 issued on 3 April 2020 announcing the creation of a special unit at the Central Bank of Lebanon to conduct FOREX operations as per the Platform Rate. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations.

- Basic Circular 150 issued on 9 April 2020 exempting banks from placing mandatory reserves with the Central Bank of Lebanon in relation to funds transferred from abroad or cash deposits in foreign currency received after 9 April 2020, subject to preserving and guaranteeing the liberty of the depositors in determining the use of these funds and benefiting from all kinds of banking services (transfers abroad, international credit card limits, foreign currency cash withdrawals...).

- Basic Circular 151 issued on 21 April 2020 concerning depositors who wish to withdraw amounts of cash from their foreign currencies accounts as per the Platform Rate up to limits set by the Bank. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars.

- Intermediate Circular 552 issued on 22 April 2020 requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for clients who are not able to pay their dues due to the current economic situation, as assessed by the Bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks' loans with zero interest rate against the said loans.

- Intermediate Circular 567 issued on 26 August 2020, which partly altered the directives for the determination of expected credit losses and regulatory capital calculation and ratios, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese sovereign bonds in foreign currencies was increased from 9.45% to 45%, while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese sovereign bonds in local currency, exposures to the Central Bank of Lebanon in

will add up to the already material adverse prospects on the Bank's business, financial condition, results of operations, prospects, liquidity and capital position.

foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% respectively). The circular however changed the requirement for the recognition of Expected Credit Losses in the banks' financial statements from applying at a "maximum" the loss rate adopted for regulatory expected credit losses calculations, to applying it at a "minimum". In addition, the circular introduced the following measures:

- Allowing banks to constitute the Expected Credit Losses on exposures to Lebanese sovereign and the Central Bank of Lebanon, progressively over a period of five years, noting that the Central Bank of Lebanon's Central Council may accept to extend the term to 10 years for banks that manage to complete the 20% cash contribution to capital requirement.

- Allowing banks not to automatically downgrade loan classification or staging for borrowers that were negatively affected by the COVID-19 pandemic, showing past due and unpaid for the period from 1 February 2020 to 31 December 2020. These borrowers must be identified as either still operating on a going concern basis or not. In case the borrower is still operating as a going concern, the Bank may reschedule the loan. In exceptional cases when the borrower ceases to operate as a going concern following the impact of the COVID-19 pandemic, then the Bank must immediately downgrade the loan classification and staging to Stage 3 (default).

- Requesting from banks to finalise the assessment of the future financial position of their customers by 31 December 2020 and to estimate Expected Credit Losses based on this assessment and recognise the financial impact in the statement of income for the year ended 31 December 2020.

- Prohibiting banks from distributing dividends on common shares for the years 2019 and 2020.

- Requesting from banks to increase their own funds (equity) by an amount equal to 20% of their common equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments that meet the criteria for inclusion as regulatory capital, except retained earnings and gain from revaluation of fixed assets. The Central Bank of Lebanon's Central Council may exceptionally approve for a bank to complete 50% of the 20% required capital increase through the transfer of real estate properties from the shareholders to the concerned bank. However, these real estate properties must be liquidated in a period of 5 years following the operation.

- Changing the treatment of revaluation of fixed assets reserve for regulatory capital calculation, to become allowed for inclusion as Common Equity Tier 1 (previously 50% of this reserve was allowed for inclusion as Tier 2), subject to approval of the Central Bank of Lebanon on the revaluation gain.

- Banks must comply with the minimum capital adequacy ratios and are forbidden from distributing profits if these ratios drop below 7% for common equity Tier 1, 10% for Tier 1 and 12% for total capital. Banks must maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1. When the buffer is drawn down, banks are required to rebuild it. Under exceptional circumstances, the buffer may be drawn down during 2020 and 2021, however it must be rebuilt progressively starting 2022, by at least 0.75% each year, to reach the minimum required of 2.5% by end of 2024.

- Prepare and present to the Central Bank of Lebanon a comprehensive plan for rectifying non-compliances with the regulatory capital requirements and other regulations imposed by the Central Bank of Lebanon, taking into consideration all required provisions by the Banking Control Commission of Lebanon (BCCL), as well as other losses or provisions that the Bank expects to incur from all kinds of exposures to risks, and specifying the period of time needed to address the non-compliances.

- Exceptionally for the years 2020 and 2021, Allowances for Expected Credit Losses on Stage 1 and 2 exposures, excluding those relating to Lebanese sovereign and the Central Bank of Lebanon, may be included under regulatory Common Equity Tier 1. This treatment will be amortised over a period of 3 years (2022-2024 by 25% yearly).

- Basic Circular 154 issued on 27 August 2020, aims mainly at restoring the operations of banks in Lebanon to their normal levels as at before October 2019, and rectifying any non-compliance with regulatory ratios and banking regulations. The circular mainly introduced the following measures:

- Requesting banks to present a fair assessment of the value of their assets and liabilities for the purpose of putting in place the comprehensive plan referred to in Intermediate Circular 567 (refer to above), in order to be able, within a period limited in time, to comply with the regulatory and banking requirements, mainly those related to liquidity and solvency, and in order to restore the operations of the Bank to their normal levels as at before October 2019.

- Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than USD 500,000 or their equivalent in other foreign currencies, to deposit in a 5-year term "special account" an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks' importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019, and without a minimum threshold.

- Requesting from banks to maintain a current account with a foreign correspondent bank offshore, free of any obligations

(liquidity abroad). Such account shall be at no time less than 3% of the Bank's total foreign currency deposits as at 31 July 2020, by 28 February 2021.

- Requesting from banks, after taking consideration of their fair assessment of their financial position, to present a plan during the first quarter of 2021, to address recapitalisation needs, if any, to the Central Bank of Lebanon's Central Council, for its approval. Banks shall take the necessary legal and regulatory measures in order to facilitate the consensual possibility for their depositors to transfer their deposits to shares or bonds. Bank shares will be exclusively listed in Beirut. Banks can pay interest on the bonds that exceed current levels.

- Intermediate Circular 568 issued on 26 August 2020 allows the payments of retail loans denominated in US Dollars in Lebanese Pounds based on the official exchange rate of LBP 1,507.5 per US Dollar subject to the following conditions:

- The client should be a Lebanese resident.
- The client should not have a bank account denominated in US Dollars.
- The housing loans granted to the client should not exceed USD 800,000 while the aggregate amount of retail loans should not exceed USD100,000 per client.

- Intermediate Circular 575 issued on 5 November 2020 states that banks should book one third of the capital gains arising from the revaluation of fixed assets held in settlement of debt under Tier 2 capital based on the following binding conditions:

- The Central Bank of Lebanon's Central Council investigating and approving at the expense of the concerned bank the validity of the revaluation process.
- Raising the capital before 31 December 2021, as follows:
- Add a maximum of one third of the revaluation gains under Tier 2 capital.
- Increase Common Equity Tier 1 capital in cash by an amount at least equivalent to the amount of the revaluation gains booked under Tier 2 capital.
- The revaluation and capital increase must be completed before 31 December 2021.

1.3. PARTICULAR SITUATION OF THE GROUP

Assets and liabilities in foreign currency, transactions in foreign currency and foreign currency translation reserves, regardless of whether they are onshore or offshore, were reflected in these financial statements at the official exchange rate of 1,507.5 USD/LBP, in line with IAS 21 due to the lack of an alternative legal exchange mechanism. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official one: parallel exchange markets that are highly volatile, the Platform Rate, estimated exchange rates detailed in the government's Financial Recovery Plan, in addition to different exchange rates adopted for commercial transactions purpose in Lebanon. Accordingly, translation of all assets and liabilities and foreign currency transactions at the official exchange rate does not represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the financial statements. In the absence of an alternative legal exchange mechanism, we are unable to estimate the effects on these financial statements and these financial statements do not include adjustments from any future change in the official exchange rate and/or alternative legal exchange mechanism. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognised in these financial statements once the revamping of the peg and/or a new legal exchange mechanism is implemented by the Lebanese government. FX currency mismatch is detailed in Note 54.A. to these financial statements.

As at 31 December 2020, loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortised cost are recorded in these financial statements at the loss rates mentioned in the Central Bank of Lebanon's Intermediate Circular 567. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the government's plans with respect to the exposures of banks to the Central Bank of Lebanon and Lebanese sovereign, we are unable to estimate in a reasonable manner Expected Credit Losses on these exposures. Accordingly, these financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an Expected Credit Losses model. The impact is expected to be pervasive and will be reflected in the financial statements once the debt restructuring has been defined conclusively by the government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. With respect to Lebanese government Eurobonds held by the Group at 31 December 2019, Management recorded in the consolidated income statement for 2019 the Expected Credit Losses on these financial assets based on the cash flows that the Group expects to receive. During 2020, most of these assets were disposed of with no significant impact on the Group's income statement. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government, and the recognised loss allowances, as well as their staging, are detailed in Note 53 to these financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. The deterioration was further aggravated by the effects

of the COVID-19 pandemic and the significant high inflation in Lebanon. Since the start of the Lebanese Crisis, the Bank has been implementing a de-risking strategy by considerably reducing its assets' size, specifically its portfolio of private loans concentrated in Lebanon. It has also set up a centralised and specialised remedial function to proactively review and manage the quality of its various portfolios. The Bank has recorded significant amounts of Expected Credit Losses during the last quarter of 2019 and the year ended 31 December 2020. Loss allowance on the Group's portfolio of these private loans has been estimated based on the best available information at the reporting date about past events, current conditions and forecasts of economic conditions combined with expert judgment. Maximum exposures to the credit risk of the Group's portfolio of private loans and the recognised loss allowances, as well as their staging, are detailed in Note 53 to these financial statements.

The financial position of the Group, as reported in these financial statements, does not reflect the adjustments that would be required by IFRS as a result of the future government's reform program, the deep recession, the currency crisis and the hyperinflation. Due to the high levels of uncertainties, the lack of observable indicators, the high gap between the parallel market rates, the Platform Rate and the official exchange rate, and the lack of visibility on the government's plans with respect to: (a) the high exposures of banks with the Central Bank of Lebanon, (b) the Lebanese sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, Management is unable to estimate in a reasonable manner the impact of these matters on its financial position.

Management anticipates that the above matters will have a materially adverse impact on the Group's financial position and equity.

Until the above uncertainties are resolved, the Group is continuing its operations as performed since 17 October 2019 and in accordance with the laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Group to litigations that are dealt with on a case by case basis when they occur. Meanwhile, the Group is exerting extended efforts to (a) strengthen its capitalisation, (b) enhance the quality of its private loans portfolio, deleveraging it as appropriate and downsizing its balance sheet, (c) build up its offshore liquidity and reduce its commitments and contingencies to correspondent banks and financial institutions outside Lebanon, and (d) manage operating profitability.

Once the above uncertainties are resolved, a pro-forma balance sheet of the Bank will be prepared which will include the effects of the revaluation of the assets and liabilities in foreign currencies, the effects of the hyperinflation, the effects of the restructuring of the government debt securities, the effects of the restructuring of the Central Bank of Lebanon's balance-sheet, and the effects on its private loan portfolio.

On 1 October 2020, the Bank received a letter from the Central Bank of Lebanon, referring to Basic Circular 154 and Intermediate Circular 567, and requesting it to submit a roadmap that sets out the following:

- The Bank's overall strategy for the years 2020-2024.
- The Bank's assessment of its portfolio of private loans and Expected Credit Losses as at 31 December 2020, as well as total realised and expected losses for the year 2020.

- The amount of Expected Credit Losses that have not been translated yet to foreign currencies.
- The capital needs to comply with the minimum required capital and the measures and sources that will be relied upon to cover the shortfall, when existing.
- The Bank's strategy with respect to its investments in foreign banks and branches.
- The mechanism to rectify any non-compliance with regulatory requirements.
- The measures that will be taken to rectify non-compliances with articles 154 and 153 of the Code of Money and Credit, if any.
- The measures that will be taken to attract foreign liquidity or "fresh funds" and to cover liquidity onshore and offshore commitments.

The roadmap was submitted to the Central Bank of Lebanon on 18 February 2021. However, a reasonable and credible roadmap can only be achieved once the many material uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalisation needs is accurately determinable.

The Bank's key strategic objectives during this challenging period focused on the consolidation and de-risking of the domestic franchise and operations, and the ring-fencing of foreign entities and branches from Lebanon spill-over effects. 1) strengthening the Bank's foreign currency liquidity metrics; 2) maintaining sufficient capital buffers over the minimum regulatory capital adequacy levels; 3) improving asset quality by (i) closely monitoring the lending portfolios, taking early remedial actions on problematic files, and maintaining adequate provisioning coverage, and (ii) significantly reducing sovereign debt exposure, especially in foreign currency; 4) ensuring that foreign entities continue to provide the Group with diversified income generation capacity; 5) targeting a lean organisational structure by improving operational efficiency and optimising cost structure.

Management has been focusing on six main pillars to face the current financial and economic environment. These pillars are: 1) asset quality; 2) quality of earnings; 3) liquidity and ALM; 4) solvency; 5) operational and other non-financial risks; and 6) governance. The roadmap details the key actions related to each specific pillar.

The Bank has so far implemented a series of measures in relation to these key strategic objectives and pillars, including:

- Sale of the Bank's Egyptian subsidiary, as well as the Jordanian and Iraqi operations.

- In accordance with Central Bank of Lebanon Intermediary Circular 567, banks are required to increase their own funds (equity) by an amount equal to 20% of their common equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments. The amount of increase required for the Bank is USD 622 million. On 18 February 2021, the Bank has submitted to the regulators the measures taken in this respect which entail:
 - Issuance of common shares for USD 209 million (Note 38).
 - Dividend distributed by foreign entities of USD 110 million of which USD 30 million in fresh dollars.
 - Proceeds from the sale of the Bank's operations in Egypt, Jordan and Iraq, and of its investment in Bank Audi Syria aggregated a cumulative USD 841 million, increasing stand-alone equity by USD 306 million, of which USD 291 million in fresh dollars.

The approval of the regulator of these measures is pending as of the date of these financial statements.

- Disposing of, during Q1-2020, the majority of its Republic of Lebanon (RoL) Eurobonds portfolio. As at December 2020, Bank Audi sal's net exposure to RoL Eurobonds is only USD 3 million (USD 9 million on a consolidated basis).

- The Bank submitted to the regulators an adjusted calculation for meeting the regulatory requirement of 3% liquidity ratio with foreign banks in accordance with Central Bank of Lebanon Basic Circular 154. The approval of the regulatory for meeting this ratio is pending as of the date of these financial statements.

- Deleveraging the loan portfolio and increasing provisioning coverage during 2020, consolidated gross loans dropped by USD 4.6 billion (including the deconsolidation impact resulting from the sale of Bank Audi Egypt, Jordan and Iraq). Gross loans booked at Bank Audi sal alone dropped by USD 1.5 billion during the same period, representing a decrease of 32% from December 2019 level.

- Re-establishing normal banking services with the active promotion of the "External Account" platform.

- Improving operational efficiency and strengthening governance by:
 - Building up on the synergies achieved from the merger of both Audi Private Bank sal and Audi Investments Bank sal under Bank Audi sal.
 - Implementing a cost optimisation plan.

All of these measures have helped strengthen the Bank's financial position, including international liquidity and solvency metrics. As at December 2020, consolidated capital adequacy ratios stood at 9.36%, 11.52% and 13.12% for CET1, Tier 1 and Total CAR respectively, above the minimum required levels of 4.5%, 6% and 8% for 2020-2021 and 7%, 8.5% and 10.5% (including 2.5% capital conservation buffer) required by 2024. These ratios exclude the impact of lower RWA levels that will result from the deconsolidation of Bank Audi Egypt, Jordan and Iraq, and should therefore further improve once the deconsolidation is completed in 2021.

The Bank has also prepared financial projections covering future years until 2024, taking into account various additional planned actions, including:

- Strengthening its financial condition by using all of its future consolidated profits for that purpose.
- Continuing to deleverage its loan portfolio booked in Lebanon during 2021.
- Increasing significantly its international foreign currency liquidity position.

The Bank is unable to predict the response of the Central Bank of Lebanon on its submitted roadmap, as well as the level of its adherence with the banking regulations and its planned actions, nor it is able to predict the measures that might be taken by the regulator in that regard. Once the Bank receives an official feedback from the Central Bank of Lebanon, Management will be able to assess its impact on the financial statements of the Group.

The Bank is also uncertain whether the measures set out in its roadmap above would be sufficient to cover all its commitments as they become due and restore the activities of the Bank to normal pre-crisis levels. Such sufficiency and a reasonable and credible plan can only be achieved once the uncertainties from the prevailing crisis, the multitude of exchange rates, the hyperinflation, the COVID-19 pandemic, the explosion of the Beirut port, as well as the implementation of a clear national fiscal and economic recovery plan are resolved.

2.0. | ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for: a) the revaluation of land and buildings pursuant to the adoption of the revaluation model of IAS 16 for this asset class, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss, and financial assets at fair value through other comprehensive income.

The consolidated financial statements are presented in Lebanese Pounds (LBP) which is the Bank's functional currency, and all values are rounded to the nearest million, except when otherwise indicated.

As of 31 December 2020, all conditions have been met for the Group's financial statements to incorporate the inflation adjustment provided under IAS 29 "Financial Reporting in Hyperinflationary Economies". IFRS requires that financial statements of any entity whose functional currency is the currency of a hyperinflationary economy be restated into the current purchasing power at the end of the reporting period. Paragraph 4 of IAS 29 states that it is preferable for all entities that report in the currency of a hyperinflationary economy to apply the standard at the same date. In order to achieve uniformity as to the identification of an economic environment of this kind, IAS 29 provides certain guidelines: a cumulative three-year inflation rate exceeding 100% is a strong indicator of hyperinflation, but also qualitative factors, such as analysing the behaviour of population, prices, interest rates and wages should also be considered.

The Lebanese national statistics office reported 3-year and 12-month cumulative rates of inflation of 173% and 146%, respectively, as of December 2020. Qualitative indicators, following the deteriorating economic condition and currency controls, also support the conclusion that Lebanon is a hyperinflationary economy for accounting purposes for periods ending on or after 31 December 2020. Therefore, entities whose functional currency is the Lebanese Pound should restate their financial statements to reflect the effects of inflation in conformity with IAS 29. Such restatement shall be made as if the

The Lebanese Crisis which was set off during the last quarter of 2019 has imposed severe limitations on the ability to conduct Commercial Banking activities or transactions under the normal course of business in Lebanon in 2020. Market embedded factors, such as unofficial capital controls, inability to secure foreign liquidity and the existence of several values for the US Dollar during the current fiscal year, resulted into several practices and transactions that would not qualify as normal course of business in a non-crisis environment, and for which there are no directly observable prices or a governing legal/regulatory framework. Such practices and transactions expose the Bank to increased litigation and regulatory risks and negatively impact the financial position of the Bank, its regulatory ratios and covenants due the adverse effects of the uncertainties. There is a significant uncertainty in relation to the extent and period over which this situation will continue and the impact that conducting operations under a crisis environment in the foreseeable future will further have on the Group's financial position, future cash flows, results of operations, regulatory ratios and covenants. The Group's realisation value of assets and sufficiency and settlement value of liabilities are premised on future events, the outcome of which are inherently uncertain.

Lebanese economy has always been hyperinflationary; using a general price index that reflects the changes in the currency's purchasing power.

The effects of the application of IAS 29 are summarised below:

(a) Financial statements must be adjusted to consider the changes in the currency's general purchasing power, so that they are expressed in the current unit of measure at the end of the reporting period.

(b) In summary, the restatement method under IAS 29 is as follows:

i. Monetary items are not restated in as much as they are already expressed in terms of the measuring unit current at the closing date of the reporting period. In an inflationary period, keeping monetary assets generates loss of purchasing power and keeping monetary liabilities generates an increase in purchasing power. The net monetary gain or loss shall be included as income for the period for which it is reported.

ii. Non-monetary items carried at the current value of the end date of the reporting period shall not be restated to be presented in the balance sheet, but the restatement process must be completed in order to determine into the current purchasing power at the end of the reporting period the income derived from such non-monetary items.

iii. Non-monetary items carried at historical cost or at the current value of a date prior to the end of the reporting period are restated using coefficients that reflect the variation recorded in the general level of prices from the date of acquisition or revaluation to the closing date of the reporting period, then comparing the restated amounts of such assets with the relevant recoverable values. Depreciation charges of property, plant and equipment and amortisation charges of intangible assets recognised in profit or loss for the period, as well as any other consumption of non-monetary assets will be determined based on the new restated amounts.

iv. Income and expenses are restated from the date when they were recorded, except for those profit or loss items that reflect or include in their determination the consumption of assets carried at the purchasing power of the currency as of a date prior to the recording of the consumption, which are restated based on the date when the asset to which the item is related originated; and except those profit or loss items originated from comparing two measurements expressed in the purchasing power of currency as of different dates, for which it is necessary to identify the compared amounts, restate them separately and compare them again, but with the restated amounts.

v. At the beginning of the first year of application of the restatement method of financial statements in terms of the current measuring unit, the prior year comparatives are restated in terms of the measuring unit current at the end of the current reporting period. The equity components, except for reserved earnings and undistributed retained earnings, shall also be restated, and the amount of undistributed retained earnings shall be determined by the difference between net assets restated at the date of transition and the other components of opening equity expressed as indicated above, once all remaining equity components are restated.

As of the date of the accompanying financial statements, for the reasons described below, Management is temporarily unable to apply the above mentioned standard, nor is it able to quantify the effect that the application of IAS 29 would have on the presented financial statements. However, Management estimates such effects to be significant. This situation must be taken into account when interpreting the information reported by the Group in the accompanying financial statements including its statement of financial position, income statement, statement of comprehensive income and cash flow statement.

The Group uses the official exchange rate of 1,507.5 USD/LBP to translate balance and transactions in foreign currencies. Since the emergence of the parallel market and since the introduction by the Central Bank of Lebanon of the "Platform Rate" of approximately 3,900 USD/LBP, the Lebanese market has witnessed multiple pricing and valuations of balances receivable and payable and operations in

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the regulations

PRESENTATION OF FINANCIAL STATEMENTS

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in these Notes.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business,

foreign currencies, depending on the settlement method which is based on unofficial markets. Accordingly, since there is no official exchange or payment mechanism for transactions and balances denominated in foreign currencies, the Group is translating balances (assets and liabilities) and transactions in foreign currencies at the official exchange rate, which does not represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or of the financial statements.

In addition, IAS 29 requires the use of a general price index to reflect changes in purchasing power. Most governments issue periodic price indices that vary in their scope, but all entities that report in the currency of the same economy should use the same index. The consumer price index is normally closest to the concept of the general price index required by IAS 29 because it is at the end of the supply chain and reflects the impact of prices on the general population's consumption basket. The weights allocated for the calculation of the consumer price index impact the consumer price index and might need to be revisited based on the new behaviour of the population as a result of the crisis facing Lebanon.

Such matters impede a proper application of IAS 29 as any application under the current circumstances would not provide more relevant financial statements to Management, shareholders and other users. The Group is currently assessing the date at which it will apply IAS 29.

The application of IAS 29 is very complex and requires the Group to develop new accounting software and processes, internal controls and governance framework. Based on the Group's preliminary assessment, the absence of an official legal payment and settlement mechanism that would reflect in a reasonable manner, the expected cash flows for assets and liabilities in foreign currencies, and the absence of an accurate reflection of price changes impede the useful information that would have been otherwise produced from the application of IAS 29. Accordingly, the Group has postponed the application of IAS 29 and incurring costs for developing accounting processes and a governance framework until the Group is comfortable that such application would provide the users with more relevant information.

of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

2.2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Bank Audi sal and its subsidiaries as at 31 December 2020. Details of the principal subsidiaries are given in Note 46.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee.
- The relevant activities and how decisions about those activities are made, and whether the Group can direct those activities.
- Contractual arrangements such as call rights, put rights and liquidation rights.
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

NON-CONTROLLING INTERESTS

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interests in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent of the Group and to the non-controlling interests,

2.3. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first time, certain amendments to the standards, which are effective for annual periods beginning on or after

AMENDMENTS TO IFRS 3 *DEFINITION OF A BUSINESS*

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control. Where the Group loses control of a subsidiary but retains an interest in it, then such interest is measured at fair value at the date that control is lost with the change in carrying amount recognised in profit or loss. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. As such, amounts previously recognised in other comprehensive income are transferred to consolidated income statement.

even if this results in the non-controlling interests having a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

1 January 2020. The nature and the impact of each amendment is described below:

all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

AMENDMENTS TO IAS 1 AND IAS 8 *DEFINITION OF MATERIAL*

The amendments provide a new definition of material that states: "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the

nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING ISSUED ON 29 MARCH 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place, and to assist all parties to understand and interpret the standards. This will

affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities, and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

AMENDMENTS TO IFRS 16 *COVID-19 RELATED RENT CONCESSIONS*

On 28 May 2020, the IASB issued COVID-19 Related Rent Concessions amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that

makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

2.4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020, with the

Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

AMENDMENTS TO IFRS 7, IFRS 9 AND IAS 39 *INTEREST RATE BENCHMARK REFORM – PHASE 2*

"Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16" (IBOR reform Phase 2) is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and/or the hedged item to reference the RFR, and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Group may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Group may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable,

e.g. it is an established benchmark that is widely used in the market to price loans and derivatives.

For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Group reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Group is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that, prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. The Phase 2 reliefs will cease to apply once all changes have been made to financial instruments and hedging relationships, as required by the Reform.

As at 31 December 2020, the Group has not transitioned a financial instrument/hedging instruments from an IBOR to risk-free-rate (RFR) and, as such, did not early adopt IBOR reform Phase 2. The Group applies the reliefs of IBOR reform Phase 1 to its hedging relationships that are directly affected by interest rate benchmark reform, and assumes that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of the Reform. The Group is currently assessing the impact of transitioning from an IBOR to RFR and the amendments of IBOR reform Phase 2 on its hedging relationships and financial statements.

IFRS 9 *FINANCIAL INSTRUMENTS* – FEES IN THE “10 PER CENT” TEST FOR DERECOGNITION OF FINANCIAL LIABILITIES

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual

reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

AMENDMENTS TO IAS 1: *CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself

an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have a material impact on the Group.

PROPERTY, PLANT AND EQUIPMENT: PROCEEDS BEFORE INTENDED USE – *AMENDMENTS TO IAS 16*

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. .The amendments are not expected to have a material impact on the Group.

REFERENCE TO THE CONCEPTUAL FRAMEWORK – *AMENDMENTS TO IFRS 3*

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities that would be

within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively and are not expected to have a material impact on the Group.

ONEROUS CONTRACTS – COSTS OF FULFILLING A CONTRACT – *AMENDMENTS TO IAS 37*

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group.

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured until it is finally settled within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group’s investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor separately tested for impairment.

The statement of profit or loss reflects the Group’s share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group’s other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 “Operating Segments”.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

its share of any changes, when applicable, in the statement of changes in equity. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is transferred to consolidated income statement where appropriate. Upon loss of significant influence over the associate, the Group measures and

FOREIGN CURRENCIES

The consolidated financial statements are presented in Lebanese Pound (LBP) which is also the Bank’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Bank uses the step-by-step method of consolidation.

(i) Transactions and Balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to “net gain on financial assets at fair value through profit or loss” in the consolidated income statement, except for monetary items that are designated as part of the hedge of the Group’s net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising

recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

(ii) Group Companies

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank’s presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the monthly average exchange rates for the year. Exchange differences arising on translation are recognised in OCI. On disposal of a foreign entity, the deferred cumulative amount recognised in OCI relating to that particular foreign operation is reclassified to the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the exchange rate on the reporting date.

The table below presents the exchange rates of the currencies used to translate assets, liabilities and statement of income items of foreign branches and subsidiaries:

	2020		2019	
	Year-end Rate	Average Rate	Year-end Rate	Average Rate
	LBP	LBP	LBP	LBP
US Dollar	1,507.5	1,507.5	1,507.5	1,507.5
Euro	1,851.21	1,724.88	1,686.89	1,690.30
Swiss Franc	1,706.67	1,607.97	1,551.09	1,519.52
Turkish Lira	205.29	217.47	253.37	267.23
Jordanian Dinar	2,126.23	2,125.98	2,124.74	2,125.79
Egyptian Pound	95.78	95.26	93.93	89.72
Saudi Riyal	401.79	401.68	401.86	401.94
Qatari Riyal	414.03	413.57	414.03	414.03
Iraqi Dinar	1.03	1.27	1.29	1.29

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION

(i) Date of Recognition

All financial assets and liabilities are initially recognised on the settlement date. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial Measurement of Financial Instruments

Financial instruments are initially measured at their fair value, plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. In the case of a financial instrument measured at fair value, with the change in fair value being recognised in profit or loss, the transaction costs are recognised as revenue or expense when the instrument is initially recognised.

When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

(iii) Day 1 Profit or Loss

When the transaction price differs from the fair value at origination and the fair value is based on a valuation technique using only observable inputs in market transactions, the Group immediately recognises the difference between the transaction price and fair value (a “Day 1” profit or loss) in the consolidated income statement. In cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

FINANCIAL ASSETS – CLASSIFICATION AND MEASUREMENT

On initial recognition, financial assets are classified as measured at: amortised cost, fair value through other comprehensive income, or fair value through profit or loss on the basis of two criteria:

- (i) The business model within which financial assets are measured; and
- (ii) Their contractual cash flow characteristics (whether the cash flows represent “solely payments of principal and interest” (SPPI)).

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

All other financial assets are classified as measured at fair value through profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

On initial recognition, the Group may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group is required to disclose such financial assets separately from those mandatorily measured at fair value.

Business Model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to Management.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's Key Management Personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How Managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the Group’s assessment.

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account.

The Group’s business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the Group needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the Group’s business model for managing those financial assets changes, the Group is required to reclassify financial assets.

The SPPI Test

As a second step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

“Principal” for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value though profit and loss.

Financial Assets at Amortised Cost
Balances with Central Banks, Due from Banks and Financial Institutions, Loans to Banks and Financial Institutions and Reverse Repurchase Agreements, Loans and Advances to Customers and Related Parties – at Amortised Cost, and Financial Assets at Amortised Cost.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortised cost using the EIR, less expected credit losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in “interest and similar income” in the consolidated income statement. Losses arising from impairment are recognised in the consolidated income statement in “net impairment loss on financial assets”. Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under “net gain on sale of financial assets at amortised cost” in the consolidated income statement.

Financial Assets at Fair Value through Other Comprehensive Income
Debt Instruments at Fair Value through Other Comprehensive Income

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest income and foreign exchange gains and losses are

recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for debt instruments at fair value through other comprehensive income is explained below. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Equity Instruments at Fair Value through Other Comprehensive Income
Upon initial recognition, the Group can elect to classify irrevocably some of its investments in equity instruments at fair value through other comprehensive income when they are not held for trading. Such classification is determined on an instrument-by-instrument basis.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments.

Dividends on these investments are recognised under “revenue from financial assets at fair value through other comprehensive income” in the consolidated income statement when the Group’s right to receive payment of dividend is established in accordance with IFRS 15: “Revenue from contracts with customers”, unless the dividends clearly represent a recovery of part of the cost of the investment. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment.

Financial Assets at Fair Value through Profit or Loss
Included in this category are those debt instruments that do not meet the conditions in “financial assets at amortised cost” and “financial assets at fair value through other comprehensive income” above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Debt Instruments at Fair Value through Profit or Loss and Loans and Advances at Fair Value
These financial assets are recorded in the consolidated statement of financial position at fair value. Transaction costs directly attributable to the acquisition of the instrument are recognised as revenue or expense when the instrument is initially recognised. Changes in fair value and interest income are recorded under “net gain on financial assets at fair value through profit or loss” in the consolidated income statement. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under “net gain on financial assets at fair value through profit or loss” in the consolidated income statement, showing separately those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Equity Instruments at Fair Value through Profit or Loss
Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income. These financial assets are recorded in the consolidated statement of financial position at fair value. Changes

FINANCIAL LIABILITIES (OTHER THAN FINANCIAL GUARANTEES, LETTERS OF CREDIT AND LOAN COMMITMENTS) – CLASSIFICATION AND MEASUREMENT

Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortised cost or fair value.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for:

- Financial liabilities at fair value through profit or loss (including derivatives).
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- Contingent consideration recognised in a business combination in accordance with IFRS 3.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- Doing so results in more relevant information because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group’s Key Management Personnel; or
- A group of financial liabilities contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivatives is prohibited.

Financial liabilities at fair value through profit and loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at fair value through profit and loss due to changes in the Group’s own credit risk. Such changes in fair value are recognised in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk do not get recycled to the consolidated income statement.

in fair value and dividend income are recorded under “net gain on financial assets at fair value through profit or loss” in the consolidated income statement. Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under “net gain from financial assets at fair value through profit or loss” in the consolidated income statement.

Interest incurred on financial liabilities designated at fair value through profit or loss is accrued in interest expense using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument.

Debt Issued and Other Borrowed Funds
Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified under “debt issued and other borrowed funds” where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to Central Banks, Banks and Financial Institutions, Banks under Repurchase Agreements and Customers’ and Related Parties’ Deposits
After initial measurement, due to central banks, banks and financial institutions, bonds under repurchase agreements, and customers’ and related parties’ deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Customers’ deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

DERIVATIVES RECORDED AT FAIR VALUE THROUGH PROFIT OR LOSS

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (also known as the “underlying”).
- b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c) It is settled at a future date.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

FINANCIAL GUARANTEES, LETTERS OF CREDIT AND UNDRAWN LOAN COMMITMENTS

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and an ECL provision. The premium received is recognised in the income statement in “net fees and commission income” on a straight line basis over the life of the guarantee.

RECLASSIFICATION OF FINANCIAL ASSETS

The Group reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent and are determined by the Group’s Senior Management as a result of external or internal changes when significant to the Group’s operations and demonstrable to external parties.

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognised gains, losses or interest are not restated.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit derivatives, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognised in “net gain on financial assets at fair value through profit or loss” in the consolidated income statement, unless hedge accounting is applied, which is discussed in under “hedge accounting policy” below.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- (a) The hybrid contract contains a host that is not an asset within the scope of IFRS 9.
- (b) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host.
- (c) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- (d) The hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments are not recorded in the statement of financial position. The nominal values of these instruments, together with the corresponding ECLs, are disclosed in these Notes.

If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss. If a financial asset is reclassified so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial Assets

(i) Derecognition Due to Substantial Modification of Terms and Conditions

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset.
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below).

If the modification of a financial asset measured at amortised cost or fair value through other comprehensive income does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

(ii) Derecognition Other than for Substantial Modification

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset; or
- The Group retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement.

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the “original asset”), but assumes a contractual obligation to pay those cash flows to one or more entities (the “eventual recipients”), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group’s continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated

as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated income statement, as “other operating income” or “other operating expenses”.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by

discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding consideration received (cash collateral provided) is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within “due to banks under repurchase agreements”, reflecting the transaction’s economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to “financial assets given as collateral”.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid (cash collateral provided), including accrued interest is recorded in the consolidated statement of financial position within “loans to banks and financial institutions and reverse repurchase agreements”, reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in “net interest income” and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within “financial liabilities at fair value through profit or loss” and measured at fair value with any gains or losses included in “net gain on financial instruments at fair value through profit or loss” in the consolidated income statement.

IMPAIRMENT OF FINANCIAL ASSETS

(i) Overview of the ECL Principles

The Group records allowance for expected credit losses based on a forward-looking approach for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as “financial instruments”. Equity instruments are not subject to impairment under IFRS 9.

- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Group expects to recover.

They key inputs into the measurements of ECL are:

- PD: the Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: the Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities.
- LGD: the Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

These parameters are generally derived from statistical models and other historical data. Forward looking information is incorporated in ECL measurements.

(ii) Measurement of ECLs

The Group measures ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

The Group measures ECLs using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For these instruments with a remaining maturity of less than 12 months, probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage, the allowance for credit losses captures the lifetime expected credit losses, similar to Stage 2.

(iii) Forborne and Modified Loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower’s financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower’s present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group’s policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- At least a 12-month probation period has passed.
- Three consecutive payments under the new repayment schedule have been made.
- The borrower has no past dues under any obligation to the Group.
- All the terms and conditions agreed to as part of the restructuring have been met.

If modifications are substantial, the loan is derecognised, as explained above.

(iv) Credit-impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is “credit impaired” when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable information:

- Significant financial difficulty of the borrower or issuer.
- A breach of contract such as a default or past due event.
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for a security because of financial difficulties.

(v) Write-offs

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to “net impairment loss on financial assets”.

(vi) Debt Instruments at Fair Value through Other Comprehensive Income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

(vii) Collateral Repossessed

The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently, these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realised is recognised in the consolidated income statement under “other operating income” or “other operating expenses”. Gains resulting from the sale of repossessed assets are transferred to “reserves appropriated for capital increase” in the following financial year.

FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as derivatives and non-financial assets, namely land and building and building improvements, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in these Notes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

HEDGE ACCOUNTING

As part of its risk management, the Group has identified a series of risk categories with corresponding hedging strategies using derivative instruments, as set out in Note 19.

When a hedging relationship meets the specified hedge accounting criteria set out in IFRS 9, the Group applies one of the three types of hedge accounting: fair value hedges, cash flow hedges, or hedges of net investments in a foreign operation.

At the inception, the Group formally documents how the hedging relationship meets the hedge accounting criteria. It also records the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness.

A hedging relationship qualifies for hedge accounting only if: (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items; (b) at the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and (c) the hedging relationship meets all of the following hedge effectiveness requirements:

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Management determines the policies and procedures for both recurring and non-recurring fair value measurement. At each reporting date, Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis in order to qualify for hedge accounting. The effectiveness test can be performed qualitatively or quantitatively. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and semi-annually on an ongoing basis. Hedge ineffectiveness is recognised in the consolidated income statement in "net gain on financial assets at fair value through profit or loss".

The Group applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (RFR). The reliefs apply during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). A hedging relationship is affected if interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform. IBOR reform Phase 1 requires that for hedging relationships affected by IBOR reform, the Group must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

(i) Fair Value Hedges

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognised in the consolidated income statement under "net gain on financial assets at fair value through profit or loss". Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised in the consolidated income statement also under "net gain on financial assets at fair value through profit or loss". If the hedged item is an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income, those amounts remain in other comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

(ii) Cash Flow Hedges

For qualifying cash flow hedge, a separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

a) The cumulative gain or loss on the hedging instrument from inception of the hedge.

b) The cumulative change in fair value (present value) of the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (the portion that is offset by the change in the cash flow hedge reserve described above) shall be recognised in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognised in the consolidated income statement. The amount that has been accumulated in the cash flow hedge reserve and associated with the hedged item is treated as follows:

a) If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.

b) For cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(iii) Hedge of Net Investments

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal or partial disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in the foreign currency translation reserve is transferred to the consolidated income statement as a reclassification adjustment.

LEASES

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a Lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use Assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within “property, equipment and right-of-use assets” on the consolidated financial statements and are subject to impairment in line with the Group’s policy, as described under “impairment of non-financial assets”.

Depreciation charge for right-of-use assets is presented within “depreciation of property, equipment and right-of-use assets” on the consolidated financial statements.

(ii) Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of

penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group’s lease liabilities are included under “other liabilities”. Moreover, the interest charge on lease liabilities is presented within “interest and similar expenses” from financial instruments measured at amortised cost in consolidated financial statements.

(iii) Short-term Leases and Leases of Low-value Assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term. Other rental expenses (including non-lease components paid to landlords) are presented within other operating expenses.

Group as a Lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit-impaired, an entity shall take into account all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. For purchased or originated credit-impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows and expected credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest Income and Interest Expense

The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortised cost of a financial liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, the fees are recognised as revenue or expense when the instrument is initially recognised.

When a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the net amortised cost of the instrument. If the financial asset cures and is no longer credit-impaired, the Group reverts back to calculating interest income on a gross basis. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortised cost of the instrument. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the consolidated income statement includes:

- Interest on financial assets at amortised cost.
- Interest on debt instruments measured at fair value through other comprehensive income.
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows in the same period as the hedged cash flows affect interest income/expense.

Interest expense presented in the consolidated income statement includes:

- Financial liabilities measured at amortised cost.
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows in the same period as the hedged cash flows affect interest income/expense.

CASH AND CASH EQUIVALENTS

“Cash and cash equivalents” as referred to in the cash flow statement comprises balances with original maturities of a period of three months or less including cash and balances with central banks, deposits with

Interest income and expense on financial instruments measured at fair value through profit or loss are presented under “net gain on financial assets at fair value through profit or loss” in the consolidated income statement.

(ii) Fee and Commission Income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee Income Earned from Services that Are Provided over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognised as revenues on expiry.

Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend Income

Dividend income is recognised when the right to receive the payment is established.

(iv) Net Gain on Financial Assets at Fair Value through Profit or Loss

Net income from financial instruments at fair value through profit or loss comprises gains and losses related to trading assets and liabilities, non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at fair value through profit or loss, and non-trading assets mandatorily measured at fair value through profit or loss. The line item includes fair value changes, interest, dividends and foreign exchange differences.

banks and financial institutions, deposits due to banks and financial institutions, and repurchase and reverse repurchased agreements.

PROPERTY AND EQUIPMENT

“Property and equipment”, except for land and buildings, is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the real estate revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

INTANGIBLE ASSETS

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated using straight line method to write down the cost of property and equipment to their residual value over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

- | | |
|--|-------------|
| • Buildings | 40-50 years |
| • Freehold improvements | 5-10 years |
| • Leasehold improvements | 5-10 years |
| • Motor vehicles | 5-7 years |
| • Office equipment and computer hardware | 5-10 years |
| • Office machinery and furniture | 10 years |

Any item of property and equipment and any significant part initially recognised are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

The Group does not have intangible assets with indefinite economic life.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- | | |
|---------------------|----------|
| • Computer software | 5 years |
| • Key money | 70 years |

ASSETS OBTAINED IN SETTLEMENT OF DEBT, ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets obtained in settlement of debt and assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, Management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Property, plant and equipment, and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately in the statement of financial position.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is

PROVISIONS FOR RISKS AND CHARGES

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Group determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

A discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale, and: a) represents a separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively with a view to resale.

In the consolidated income statement of the reporting period and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the loss of control. The resulting profit or loss (after taxes) is reported separately in the income statement.

limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group’s CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Lebanon and in other jurisdictions, arising in the ordinary course of the Group’s business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of

outflow is considered to be remote or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its financial statements.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group provides retirement benefits obligations to its employees under defined benefit plans, which requires contributions to be made to separately administered funds. The cost of providing these benefits is determined using the projected unit credit method which involves making actuarial assumptions about discount rates and future salary increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling excluding net interest, and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

TAXES

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

(i) Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred Tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under “personnel expenses” in consolidated statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

WARRANTS ISSUED ON SUBSIDIARY SHARES

The value of warrants issued on subsidiary shares is reported as part of Group share of equity and is based on the issuance date fair value. Subsequently, the carrying amount of those warrants is reduced by the

DIVIDENDS ON COMMON SHARES

Dividends on common shares are recognised as a liability and deducted from equity when they are approved by the Bank’s shareholders. Interim dividends are deducted from equity when they are declared

TREASURY SHARES

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (Treasury shares) are deducted from equity and accounted for at cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group’s own equity instruments is recognised directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group’s own equity instruments.

ASSETS UNDER MANAGEMENT AND ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

The Group provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or under custody or under administration,

CUSTOMERS’ ACCEPTANCES

Customers’ acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

cost of warrants acquired pursuant to trading transactions. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of those warrants.

and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group’s consolidated statement of financial position.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

are not treated as assets of the Group and, accordingly, are recorded as off-balance sheet items.

resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

2.6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group’s consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure

JUDGMENTS

In the process of applying the Group’s accounting policies, Management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Going Concern

Notwithstanding the events and conditions disclosed in Note 1, these financial statements have been prepared based on the going concern assumption. The Board of Directors believe that they are taking all the measures available to maintain the viability of the Group and continue its operations in the current business and economic environment.

Impairment of Goodwill

Management judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect Management’s view of future business prospects.

Business Model

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management’s stated policies and objectives for the portfolio and the operation of those policies in practice;
- How management evaluates the performance of the portfolio;
- Whether Management’s strategy focuses on earning contractual interest revenues;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual Cash Flows of Financial Assets

The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding, and so may qualify for amortised cost measurement. In making the assessment, the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Hedge Accounting

The Group’s hedge accounting policies include an element of judgment and estimation. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Group’s hedge accounting policies and the sensitivities most relevant to risks are disclosed in these Notes.

The Group applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

Determining the Lease Term of Contracts with Renewal and Termination Options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain to exercise or not the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. a change in business strategy).

The Group included the renewal period as part of the lease term for leases of head offices and branches due to the significance of these assets to its operations. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, estimation is required to establish fair values. The judgments and estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty) funding value adjustments, correlation and volatility.

Impairment Losses on Financial Instruments

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group’s ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs. Components of the ECL models that are considered accounting judgments and estimates include:

- The Group’s internal credit rating model.
- The Group’s criteria for assessing if there has been a significant increase in credit risk.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and economic inputs and their impact on ECL calculation.
- Selection of forward-looking macroeconomic scenarios and their probability of occurrence, to derive the ECL models.

As per internal policy, the Group regularly reviews its models in the context of actual loss experience and adjusts when necessary.

Impairment of Non-financial Assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset’s performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Revaluation of Property and Equipment

The Group carries its land and buildings and building improvements at fair value, with changes in fair value being recognised in other comprehensive income. These are valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The Group engaged an independent valuation specialist to assess fair values as at 31 December 2020 for property and equipment. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 26.

Pensions Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

Leases – Estimating the Incremental Borrowing Rate

The Group cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

3.0. | SEGMENT REPORTING

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segments are evaluated based on information relating to net operating income and financial position. Income taxes and operating expenses are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since Management monitors net interest income as a performance measure and not the gross income and expense amounts. Net interest income is allocated to the business

segment based on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments. Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

The assets and liabilities that are reported in the segments are net from inter-segments’ assets and liabilities since they constitute the basis of Management’s measures of the segments’ assets and liabilities and the basis of the allocation of resources between segments.

BUSINESS SEGMENTS

The Group operates in four main business segments which are Corporate and Commercial Banking, Retail and Personal Banking, Treasury and Capital Markets, and Group Functions and Head Office.

Corporate and Commercial Banking

Provides diverse products and services to the corporate and commercial customers including loans, deposits, trade finance, exchange of foreign currencies, as well as all regular Corporate and Commercial Banking activities.

Retail and Personal Banking

Provides individual customers’ deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular Retail and Private Banking activities.

Treasury and Capital Markets

Provides Treasury services including transactions in money and capital markets for the Group’s customers, manages investment and trading transactions (locally and internationally), and manages liquidity and market risks. This segment also offers Investment Banking and brokerage services, and manages the Group’s own portfolio of stocks, bonds, and other financial instruments.

Group Functions and Head Office

Consists of capital and strategic investments, exceptional profits and losses, as well as operating results of subsidiaries which offer non-banking services.

The following tables present net operating income information and financial position information.

NET OPERATING INCOME INFORMATION

	2020				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Net interest income	281,101	436,184	562,887	48,141	1,328,313
Non-interest income					
Net fee and commission (expense) income	58,541	91,772	(937,103)	2,891	(783,898)
Financial operations	6,487	48,673	131,823	9,817	196,800
Share of profit of associates	-	-	-	330	330
Other operating income	3,728	7,086	34	16,501	27,349
Total non-interest income	68,756	147,531	(805,246)	29,540	(559,419)
Total operating income	349,857	583,715	(242,359)	77,681	768,894
Net impairment loss on financial assets	(178,067)	(89,052)	4,431	-	(262,688)
Net operating income	171,790	494,663	(237,928)	77,681	506,206

	2019 Restated				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Net interest income	287,090	479,354	547,804	90,599	1,404,847
Non-interest income					
Net fee and commission income	81,256	118,572	13,471	1,581	214,880
Financial operations	13,009	52,356	(82,452)	4,737	(12,350)
Share of profit of associates	-	-	-	9,275	9,275
Other operating income	313	5,793	31	15,791	21,928
Total non-interest income	94,578	176,721	(68,950)	31,384	233,733
Total operating income	381,668	656,075	478,854	121,983	1,638,580
Net impairment loss on financial assets	(503,634)	(338,509)	(984,171)	-	(1,826,314)
Net operating income	(121,966)	317,566	(505,317)	121,983	(187,734)

FINANCIAL POSITION INFORMATION

	2020				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Investments in associates	-	-	-	113,923	113,923
Total assets	6,730,128	5,008,444	31,373,086	807,527	43,919,185
Total liabilities	6,628,313	25,811,718	7,065,197	956,078	40,461,311

	2019				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Investments in associates	-	-	-	121,139	121,139
Total assets	11,956,327	6,281,877	39,601,588	1,759,545	59,599,337
Total liabilities	11,412,659	33,335,836	9,114,494	1,259,722	55,122,711

Capital expenditures amounting to LBP 31,839 million for the year 2020 (2019: LBP 142,762 million) are allocated to the Group Functions and Head Office business segment.

Interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign amounted to LBP 2,058,260 million

for the year 2020 (2019: LBP 2,570,677 million) arising from time deposits with the Central Bank of Lebanon and financial instruments held by the Group. The breakdown of interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign is as follows:

	2020 LBP Million	2019 Restated LBP Million
Interest and similar income		
Central Bank of Lebanon	1,865,056	2,084,775
Lebanese sovereign	193,204	485,902
	2,058,260	2,570,677

GEOGRAPHICAL SEGMENTS

The Group operates in three geographical segments: Lebanon, Middle East and North Africa, and Turkey (MENAT) and Europe. As such, it is subject to different risks and returns. The following tables show the distribution of the Group's net external operating income, assets and

liabilities allocated based on the location of the subsidiaries reporting the results or advancing the funds. Transactions between segments are carried at market prices and within pure trading conditions.

NET OPERATING INCOME INFORMATION

	2020			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Net interest income	1,096,137	192,266	39,910	1,328,313
Non-interest income				
Net fee and commission (expense) income	(877,262)	34,060	59,304	(783,898)
Financial operations	158,367	860	37,573	196,800
Share of profit or loss of associates	330	-	-	330
Other operating income	7,091	13,251	7,007	27,349
Total non-interest income	(711,474)	48,171	103,884	(559,419)
Total external operating income	384,663	240,437	143,794	768,894
Net impairment loss on financial assets	(201,735)	(51,230)	(9,723)	(262,688)
Net external operating income	182,928	189,207	134,071	506,206

	2019 Restated			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Net interest income	1,065,466	269,536	69,845	1,404,847
Non-interest income				
Net fee and commission income	95,585	57,537	61,757	214,880
Financial operations	(38,255)	(10,531)	36,257	(12,350)
Share of profit or loss of associates	9,275	-	-	9,275
Other operating income	17,523	2,213	2,192	21,928
Total non-interest income	84,128	49,399	100,206	233,733
Total external operating income	1,149,594	318,935	170,051	1,638,580
Net impairment loss on financial assets	(1,474,751)	(322,711)	(28,852)	(1,826,314)
Net external operating income	(325,157)	(3,776)	141,199	(187,734)

FINANCIAL POSITION INFORMATION

	2020			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	11,224	19,365	1,250	31,839
Investments in associates	113,923	-	-	113,923
Total assets	30,815,595	8,220,621	4,882,969	43,919,185
Total liabilities	28,983,403	7,289,644	4,188,264	40,461,311

	2019			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	89,819	47,261	5,682	142,762
Investments in associates	121,139	-	-	121,139
Total assets	38,451,253	17,172,344	3,975,740	59,599,337
Total liabilities	36,335,815	15,429,036	3,357,860	55,122,711

Segment reporting assets and liabilities as at 31 December 2020 do not include those held for sale and amounting to LBP 9,493,147 million and LBP 8,502,601 million respectively.

4.0. | INTEREST AND SIMILAR INCOME

	2020 LBP Million	2019 Restated LBP Million
Balances with central banks	1,542,763	1,704,316
Due from banks and financial institutions	16,149	58,289
Loans to banks and financial institutions and reverse repurchase agreements	15,118	34,353
Loans and advances to customers at amortised cost	775,987	1,293,637
Loans and advances to related parties at amortised cost	1,747	6,083
Financial assets classified at amortised cost	534,597	927,529
Debt instruments classified at fair value through other comprehensive income	108,723	32,890
	2,995,084	4,057,097

Withholding taxes amounting to LBP 270,864 million were deducted from interest and similar income (2019: LBP 235,140 million).

The components of interest and similar income from loans and advances to customers at amortised cost are detailed as follows:

	2020 LBP Million	2019 Restated LBP Million
Corporate and SME	613,637	991,909
Retail and Personal Banking	162,350	301,728
	775,987	1,293,637

The components of interest and similar income from financial assets classified at amortised cost are detailed as follows:

	2020 LBP Million	2019 Restated LBP Million
Lebanese sovereign and Central Bank of Lebanon	508,099	875,408
Other sovereign	17,426	46,995
Private sector and other securities	9,072	5,126
	534,597	927,529

The components of interest and similar income from financial assets classified at fair value through other comprehensive income are detailed as follows:

	2020 LBP Million	2019 Restated LBP Million
Other sovereign	75,600	32,890
Private sector and other securities	33,123	-
	108,723	32,890

5.0. | INTEREST AND SIMILAR EXPENSE

	2020 LBP Million	2019 Restated LBP Million
Due to central banks	464,221	131,168
Due to banks and financial institutions	34,653	53,440
Due to banks under repurchase agreement	16,812	1,560
Customers' deposits	1,023,074	2,304,854
Deposits from related parties	1,242	15,852
Debt issued and other borrowed funds	117,250	131,911
Lease liabilities	9,519	13,465
	1,666,771	2,652,250

The components of interest and similar expense from customers' deposits are detailed as follows:

	2020 LBP Million	2019 Restated LBP Million
Corporate and SME	141,865	305,215
Retail and Personal Banking	881,118	1,997,492
Public sector	91	2,147
	1,023,074	2,304,854

6.0. | FEE AND COMMISSION INCOME

	2020 LBP Million	2019 Restated LBP Million
Credit-related fees and commissions	24,920	39,469
Brokerage and custody income	69,995	81,094
Commercial Banking income	59,977	55,334
Electronic Banking	17,688	22,739
Trade Finance income	26,724	40,326
Corporate Finance fees	703	2,611
Trust and fiduciary activities	7,012	18,316
Insurance Brokerage income	3,782	4,855
Other fees and commissions	847	2,100
	211,648	266,844

7.0. | FEE AND COMMISSION EXPENSE

	2020 LBP Million	2019 Restated LBP Million
Mark-up commission ^(*)	951,831	-
Electronic Banking	18,793	17,748
Brokerage and custody fees	13,673	24,029
Commercial Banking expenses	5,638	5,695
Other fees and commissions	5,611	4,492
	995,546	51,964

^(*) In order to build up offshore liquidity, the Group introduced the "multiplier factor" which entails inciting depositors of foreign currency international liquidity, cash deposited or incoming border transfers to convert these funds into local foreign currency deposits after the application of multiplier factors during 2020. Book losses from these transactions amounted to LBP 951,831 million during 2020 and were recorded under commission expense.

8.0. | NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 LBP Million	2019 Restated LBP Million
a) Net gain on financial instruments		
Lebanese sovereign and Central Bank of Lebanon	80	2,459
Other sovereign	8,567	7,820
Private sector and other securities	2,809	2,719
	11,456	12,998
b) Other trading income		
Foreign exchange	47,559	30,339
Credit derivatives	(3,137)	(51,349)
Other income (note 29)	295,556	-
Other derivatives	(15,369)	(4,230)
Dividends	224	69
	324,883	(25,171)
	336,289	(12,173)

Foreign exchange includes gains and losses from spot and forward contracts and other currency derivatives, as well as the result of the revaluation of the daily open foreign currency positions.

Interest income from debt instruments at fair value through profit or loss amounted to LBP 3,521 million during 2020 (2019: LBP 2,130 million).

9.0. | NET GAIN (LOSS) ON SALE OF FINANCIAL ASSETS AT AMORTISED COST

The Group derecognises some debt instruments classified at amortised cost due to the following reasons:

- Liquidity gap and yield management.
- Currency risk management as a result of change in the currency base of deposits.
- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy.

The schedule below details the gains and losses arising from the derecognition of these financial assets:

	2020			2019 Restated		
	Gains LBP Million	Losses LBP Million	Net LBP Million	Gains LBP Million	Losses LBP Million	Net LBP Million
Lebanese sovereign and Central Bank of Lebanon						
Certificates of deposit	-	(19,642)	(19,642)	2,531	-	2,531
Time deposits	-	(119,878)	(119,878)	-	-	-
Treasury bills	-	-	-	-	(78)	(78)
Eurobonds	-	-	-	-	(4,758)	(4,758)
	-	(139,520)	(139,520)	2,531	(4,836)	(2,305)
Other sovereign						
Treasury bills	-	-	-	45	-	45
Eurobonds	2	(3)	(1)	-	-	-
	2	(3)	(1)	45	-	45
	2	(139,523)	(139,521)	2,576	(4,836)	(2,260)

10.0. | OTHER OPERATING INCOME

	2020 LBP Million	2019 Restated LBP Million
Safe rental	1,403	1,480
Release of provision for risks and charges (Note 37)	2,537	378
Income from disposal of assets acquired against debts	86	222
Other income	23,323	19,848
	27,349	21,928

11.0. | NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2020 LBP Million	2019 Restated LBP Million
Re-measurements:		
Cash and balances with central banks	44,814	85,079
Due from banks and financial institutions	(207)	574
Loans to banks and financial institutions and reverse repurchase agreements	1,071	2,437
Loans and advances to customers at amortised cost	473,927	930,353
Loans and advances to related parties at amortised cost	95	-
Financial assets at amortised cost	(54,277)	955,426
Financial guarantees and other commitments	7,131	10,545
	472,554	1,984,414
Recoveries:		
Loans and advances to customers at amortised cost	(196,895)	(107,093)
Financial guarantees and other commitments	(4,776)	(8,700)
	(201,671)	(115,793)
Net direct recoveries	(8,195)	(42,307)
	262,688	1,826,314

12.0. | PERSONNEL EXPENSES

	2020 LBP Million	2019 Restated LBP Million
Salaries and related benefits	321,680	324,544
Social security contributions	35,548	40,324
End of service benefits (Note 37)	12,122	13,650
Transportation	7,317	10,139
Schooling	11,364	11,850
Medical expenses	6,501	7,021
Food and beverage	2,137	5,463
Training and seminars	989	2,451
Others	9,715	9,893
	407,373	425,335

13.0. | OTHER OPERATING EXPENSES

	2020 LBP Million	2019 Restated LBP Million
Rental charges under operating leases	8,356	8,855
Professional fees	23,704	24,194
Board of Directors' fees	744	3,256
Advertising fees	14,362	26,483
Taxes and similar disbursements	17,275	13,251
Outsourcing services	16,069	13,794
Premium for guarantee of deposits	22,627	24,367
Information technology	25,986	34,651
Donations and social aids	14,369	11,735
Provisions for risks and charges (Note 37)	3,873	3,672
Travel and related expenses	1,952	6,680
Telephone and mail	5,899	7,021
Electricity, water and fuel	7,383	7,490
Maintenance	7,527	8,980
Insurance premiums	6,436	7,080
Facilities services	8,513	7,624
Subscription to communication services	7,536	7,357
Office supplies	2,259	2,650
Receptions and gifts	463	2,053
Electronic cards expenses	2,939	3,566
Regulatory charges	7,000	8,738
Documentation and miscellaneous subscriptions	1,932	2,069
Impairment of an associate (Note 25)	7,387	19,725
Others	15,529	13,710
	230,120	269,001

14.0. | INCOME TAX

The components of income tax expense for the year ended 31 December are detailed as follows:

	2020 LBP Million	2019 Restated LBP Million
Current tax		
Current income tax	14,403	23,695
Adjustment in respect of current income tax of prior years	1,520	1,520
Other taxes treated as income tax	77,898	19,289
	93,821	44,504
Deferred tax		
Relating to origination and reversal of temporary differences	6,754	4,470
	100,575	48,974

The components of operating loss before tax, and the differences between income tax expense reflected in the financial statements and the calculated amounts, are shown in the table below:

	2020 LBP Million	2019 Restated LBP Million
Operating loss before tax from continuing operations	(217,940)	(995,165)
At applicable tax rate	(33,194)	(93,604)
Non-deductible expenses:		
Non-deductible expenses and losses for carry forward	169,093	6,466
Non-deductible provisions	86,216	158,976
Unrealised losses on financial instruments	6,847	9,140
Other non-deductibles	18,811	4,333
	280,967	178,915
Income not subject to tax:		
Revenues previously subject to tax	146,600	24,726
Provision recoveries previously subject to tax	16,145	5,071
Exempted revenues	28,134	1,464
Unrealised gains on financial instruments	19,639	14,503
Other deductibles	22,852	15,852
	233,370	61,616
Income tax	14,403	23,695
Effective income tax rate	(6.61%)	(2.38%)

The tax rates applicable to the parent and subsidiaries vary from 8% to 31% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense, and are based on the current understanding of the existing tax laws and regulations and tax practices.

During 2020, other taxes treated as income tax include an amount of LBP 69,668 million representing 2% on 2019 turnover as per article No. 20 of the budget Law 6/2020.

The movement of current tax liabilities during the year is as follows:

	2020 LBP Million	2019 Restated LBP Million
Balance at 1 January	28,325	114,960
Charges for the year	93,821	44,504
Charges related to discontinued operations	80,814	58,509
Transfer from deferred tax assets	-	(3,201)
Transfer to tax regularisation accounts	(9,792)	(19,822)
Other transfers	(1,953)	(3,732)
	162,890	76,258
Less taxes paid:		
Current year tax liability	(8,187)	(15,354)
Prior year tax liabilities	(7,670)	(86,559)
Taxes paid related to discontinued operations	(61,038)	(65,263)
	(76,895)	(167,176)
Transfer to assets as held for sale	(35,746)	-
Foreign exchange difference	174	4,283
Balance at 31 December	78,748	28,325

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

	2020					
	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement from Continuing Operations LBP Million	Income Statement from Discontinued Operations LBP Million	Other Comprehensive Income from Continuing Operations LBP Million	Other Comprehensive Income from Discontinued Operations LBP Million
Provisions	32,478	-	9,962	3,172	-	-
Impairment allowance on financial assets	21,973	-	(7,736)	-	-	-
Financial instruments at FVTOCI	(2,663)	-	-	-	(492)	(1,177)
Difference in depreciation rates	(1,753)	725	(4,316)	(183)	-	-
Defined benefit obligation	5,187	89	-	-	735	-
Revaluation of real estate	-	5,204	-	-	-	-
Cash flow hedge reserve	2,189	-	-	-	(417)	-
Other temporary differences	(3,755)	-	(4,664)	-	-	-
	53,656	6,018	(6,754)	2,989	(174)	(1,177)

	2019 Restated					
	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement from Continuing Operations LBP Million	Income Statement from Discontinued Operations LBP Million	Other Comprehensive Income from Continuing Operations LBP Million	Other Comprehensive Income from Discontinued Operations LBP Million
Provisions	28,332	6,305	9,915	10,404	-	-
Impairment allowance on financial assets	47,283	-	(17,066)	-	-	-
Financial instruments at FVTOCI	363	4,050	-	-	(4,626)	(1,135)
Difference in depreciation rates	1,763	8,400	2,021	(798)	-	-
Defined benefit obligation	4,030	89	-	-	(11)	-
Revaluation of real estate	-	22,148	-	-	(1,800)	(12,318)
Cash flow hedge reserve	3,187	-	-	-	(1,829)	-
Other temporary differences	2,168	2,886	660	(2,268)	-	-
	87,126	43,878	(4,470)	7,338	(8,266)	(13,453)

15.0. | LOSS PER SHARE

Basic loss per share are calculated by dividing the loss for the year attributable to ordinary equity holders of the Bank by the weighted average number of common shares outstanding during the year. The Bank does not have arrangements that might result in dilutive shares.

As such, diluted earnings per share was not separately calculated. The following table shows the income and share data used to calculate loss per share:

	2020 LBP Million	2019 Restated LBP Million
Loss attributable to equity holders of the Bank from continuing and discontinued operations	(225,147)	(912,177)
Loss attributable to equity holders of the Bank from continuing operations	(325,402)	(1,048,628)
Less: dividends attributable to preferred shares	-	-
Profit attributable to equity holders of the Bank from discontinued operations	100,255	136,451
Weighted average number of shares outstanding	546,241,223	398,574,269
	LBP	LBP
Basic and diluted loss per share	(413)	(2,289)
Basic and diluted loss per share from continuing operations	(596)	(2,631)
Basic and diluted earnings per share from discontinued operations	183	342

The Bank increased its capital by LBP 315,278 million effective 20 February 2020 through the issuance of 188,789,011 common shares at a nominal value of LBP 1,670.

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of authorisation of these consolidated financial statements.

16.0. | CASH AND BALANCES WITH CENTRAL BANKS

	2020 LBP Million	2019 LBP Million
Cash on hand	472,250	505,486
Central Bank of Lebanon		
Current accounts	541,675	477,176
Time deposits	15,829,409	17,460,137
Accrued interest	323,841	647,152
	16,694,925	18,584,465
Other central banks		
Current accounts	1,971,864	2,068,594
Time deposits	566,486	2,168,842
Accrued interest	-	18,697
	2,538,350	4,256,133
	19,705,525	23,346,084
Less: allowance for expected credit losses (Note 53)	(219,315)	(176,565)
	19,486,210	23,169,519

During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. As at 31 December 2020, time deposits with the Central Bank of Lebanon amounting to LBP 6,487,490 million (2019: LBP 9,254,889 million) and term borrowings from the Central Bank of Lebanon are reported on a net basis on the statement of financial position. During 2020, financial assets and financial liabilities that were settled on a net basis amounted to LBP 2,767,399 million (Note 31).

Obligatory Reserves:

- In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.
- Subsidiary banks operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking regulations of the countries in which they operate.

The following table summarises the Group’s placements in central banks available against the obligatory reserves as of 31 December:

	2020			2019		
	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million
Central Bank of Lebanon						
Current accounts	469,054	-	469,054	466,331	-	466,331
Time deposits	-	2,784,220	2,784,220	28,409	3,399,487	3,427,896
	469,054	2,784,220	3,253,274	494,740	3,399,487	3,894,227
Other central banks						
Current accounts	-	14,848	14,848	-	679,061	679,061
Time deposits	-	491,645	491,645	-	579,209	579,209
	-	506,493	506,493	-	1,258,270	1,258,270
	469,054	3,290,713	3,759,767	494,740	4,657,757	5,152,497

17.0. | DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2020 LBP Million	2019 LBP Million
Current accounts	1,649,200	1,165,643
Time deposits	501,248	991,549
Checks for collection	4,627	10,686
Other amounts due	12,618	10,766
Accrued interest	704	849
	2,168,397	2,179,493
	(438)	(1,587)
	2,167,959	2,177,906
Less: allowance for expected credit losses (Note 53)		

As of 31 December 2020, current accounts include collaterals given to foreign banks for derivative transactions amounting to LBP 384,699 million (2019: LBP 189,302 million).

18.0. | LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2020 LBP Million	2019 LBP Million
Loans and advances	204,118	180,304
Reverse repurchase agreements	63,640	521,942
Accrued interest	88	767
	267,846	703,013
	(3,600)	(2,556)
	264,246	700,457
Less: allowance for expected credit losses (Note 53)		

The Group purchased Turkish Treasury bills under a commitment to resell them (reverse repurchase agreements). The securities are not included in the statement of financial position as the Group does not acquire the

risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan and amounted to LBP 63,640 million at 31 December 2020, including accrued interest (2019: LBP 521,942 million).

19.0. | DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivatives for trading and for risk management purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of

the derivative contracts’ underlying instrument (being an equity instrument, commodity product, reference rate or index, etc.). The notional amounts indicate the volume of transactions outstanding at year-end and are not indicative of either the market risk or credit risk.

FORWARDS AND FUTURES

Forwards and future contracts are contractual agreements to buy and sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the

over-the-counter market. Future contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

OPTIONS

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount

of financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

SWAPS

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in specified underlying index such as an interest rate, foreign currency rate, commodity index or equity index.

in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with difference being paid by one party to the other.

Interest rate swaps relate to contracts taken out by the Group with other counterparties (customers and financial institutions) in which the Group either receives or pay a floating rate of interest, respectively,

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

The Group has positions in the following type of derivatives:

	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
31 December 2020			
Derivatives held for trading			
Forward foreign exchange contracts	14,364	7,406	824,919
Forward precious metals contracts	-	79	2,276
Currency swaps	134,698	138,870	4,197,319
Precious metals swaps	8	3,022	87,628
Currency options	15,395	18,280	1,035,522
Interest rate swaps	12,674	-	1,813,566
Interest rate options	38,682	-	1,585,032
Credit derivatives	-	-	230,443
Equity options	2,999	2,999	1,352
	218,820	170,656	9,778,057
Derivatives held as fair value hedge			
Interest rate swaps	-	276,137	1,582,875
	-	276,137	1,582,875
Total	218,820	446,793	11,360,932

	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
31 December 2019			
Derivatives held for trading			
Forward foreign exchange contracts	10,418	17,908	1,268,105
Forward precious metals contracts	-	29	853
Currency swaps	165,819	139,046	6,198,522
Precious metals swaps	88	2,652	91,161
Currency options	59,316	11,894	1,201,208
Interest rate swaps	44,173	30,404	1,778,467
Interest rate options	-	-	51,790
Credit derivatives	3,137	-	741,532
Equity options	5,638	4,087	12,115
	288,589	206,020	11,343,753
Derivatives held as fair value hedge			
Interest rate swaps	-	157,705	1,582,875
Derivatives held to hedge net investments in foreign operations			
Currency swaps	2,335	-	98,683
Derivatives held as cash flow hedge			
Interest rate swaps	-	8,377	188,438
Total	290,924	372,102	13,213,749

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR TRADING PURPOSES

Most of the Group’s derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives

entered into for risk management purposes which do not meet the IFRS 9 hedge accounting criteria.

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSES

The Group uses derivatives for hedging purposes in order to reduce its exposure to credit risk and market risks. This is achieved by hedging specific financial instruments, portfolio of fixed rate financial instruments

and forecast transaction, as well as strategic hedging against overall financial position exposures.

HEDGES OF INTEREST RATE RISK

The Group’s risk management strategy is to hedge interest rate risk with interest rate derivatives. The interest rate risk management strategy is to reduce the Group’s exposure to interest rate risk to within approved risk limits. The Group uses interest rate swaps to hedge mismatches between fixed interest rates and floating interest rates. The hedging instruments share the same risk exposures as the hedged items. Hedge ineffectiveness is assessed with reference to the shared risks, but to the extent hedging instruments are exposed to different risks than the hedged items, this could result in ineffectiveness. The Group establishes a hedge ratio of 100% by aligning the par amount of the hedged item and the notional amount of the interest rate swap designated as a hedging instrument.

In these hedging relationships, the Group uses benchmark interest rate as a component of interest rate risk. Using the benchmark interest rate results in other risks such as credit risk and liquidity risk which are excluded from the hedge accounting relationship.

Sources of ineffectiveness affecting hedge accounting are as follows:

- The effect of the counterparty and the Group’s own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and

- Differences in maturities or timing of cash flows of the swap and the hedged items.

There were no other sources of ineffectiveness in these hedge relationships.

IBOR Risk

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. The project is sponsored by the Group CFO and is being led by senior representatives from functions across the Group including the client facing teams, Legal, Finance, Operations and Technology. The project provides monthly progress updates to the Managing Board and bi-annually to the Audit Committee.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform, and analysed by interest rate and cross currency basis. The derivative hedging instruments provide close approximation to the extent of the risk exposure the Group manages through hedging relationships.

	2020		2019	
	Nominal Amount LBP Million	Average Maturity Years	Nominal Amount LBP Million	Average Maturity Years
Interest rate swaps				
LIBOR (USD) – 3 months	1,582,875	7.38	1,582,875	8.38
LIBOR (USD) – 6 months	-	-	188,438	5.80
	1,582,875		1,771,313	

Fair value Hedges of Interest Rate Risk

The Group held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk:

	2020	2019
Nominal amount – LBP million	1,582,875	1,582,875
Average fixed interest rate	3.01%	3.01%
Maturity	More than 5 years	More than 5 years

As at 31 December, the amounts relating to the hedging instruments were as follows:

	Fair Value			Change in Fair Value Used for Calculating Hedge Ineffectiveness LBP Million
	Notional Amount LBP Million	Positive LBP Million	Negative LBP Million	
31 December 2020				
Interest rate swaps	1,582,875	-	276,137	122,469

31 December 2019				
Interest rate swaps	1,582,875	-	157,705	102,479

As at 31 December, the amounts relating to the hedged items were as follows:

	2020		2019	
	Carrying Value LBP Million	Change in Fair Value Used for Calculating Hedge Ineffectiveness LBP Million	Carrying Value LBP Million	Change in Fair Value Used for Calculating Hedge Ineffectiveness LBP Million
Time deposits with Central Bank of Lebanon	1,847,305	121,383	1,725,922	102,842

Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item amounted to LBP 264,430 million as at 31 December 2020 (2019: LBP 143,047 million). No ineffectiveness from these hedges was recognised in profit or loss during the year as the hedging instrument and the hedged item are closely aligned. There were no accumulated amounts of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.

Cash Flow Hedges of Interest Rate Risk

As of 31 December 2019, interest rate swaps were held as hedging instrument against borrowing from banks and financial institutions for a notional amount of USD 125 million (equivalent to LBP 188,438 million) maturing in October 2025 and paying an average fixed interest rate of 3.15%. During 2020, these hedging instruments were terminated. For calculating hedge ineffectiveness change in fair value of the hedging instruments and the hedged items were LBP 8,165 million and LBP 8,165 million respectively (2019: LBP 4,408 million and LBP 4,408 million respectively). Currency translation losses amounted to LBP 5,256 million (2019: nil). No ineffectiveness from these hedges was recognised in profit or loss as the hedging instrument and the hedge item are closely aligned.

Cash flow hedge reserves related to continued and discontinued hedges are nil and LBP 19,944 million respectively (2019: LBP 6,575 million and 12,270 respectively). Gain on cash flow hedges reclassified to the income statement amounted to LBP 2,227 million (2019: LBP 8,311 million) and were reflected under interests and similar expenses.

20.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 LBP Million	2019 LBP Million
Lebanese sovereign and Central Bank of Lebanon		
Treasury bills	691	722
Eurobonds	143	36
	834	758
Other sovereign		
Treasury bills and bonds	4,295	1,038
Private sector and other securities		
Banks and financial institutions	325,426	294,053
Loans and advances to customers	7,124	18,157
Mutual funds	52,156	67,071
Equity instruments	2,232	5
	386,938	379,286
	392,067	381,082

21.0. | LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2020 LBP Million	2019 LBP Million
Corporate and SME	7,441,872	11,581,548
Retail and Personal Banking	3,195,612	5,545,072
Public sector	68,464	300,403
	10,705,948	17,427,023
Less: allowance for expected credit losses (Note 53)	(1,563,596)	(1,965,352)
	9,142,352	15,461,671

22.0. | LOANS AND ADVANCES TO RELATED PARTIES AT AMORTISED COST

	2020 LBP Million	2019 LBP Million
Corporate and SME	15,579	13,756
Retail and Personal Banking	92,784	126,800
	108,363	140,556
Less: allowance for expected credit losses (Note 53)	(163)	(67)
	108,200	140,489

23.0. | FINANCIAL ASSETS AT AMORTISED COST

	2020 LBP Million	2019 LBP Million
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit	4,052,447	6,359,285
Treasury bills	3,330,377	3,330,933
Eurobonds	87,744	1,979,348
	7,470,568	11,669,566
Other sovereign		
Treasury bills	40,305	1,326,508
Eurobonds	247,345	284,138
Other governmental securities	-	13,519
	287,650	1,624,165
Private sector and other securities		
Banks and financial institutions debt instruments	100,928	163,353
Corporate debt instruments	76,686	23,851
	177,614	187,204
	7,935,832	13,480,935
Less: allowance for expected credit losses (Note 53)	(148,339)	(1,161,991)
	7,787,493	12,318,944

During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. Accordingly, as at 31 December 2020, certificates of deposit amounting to LBP 2,638,000 million (2019: the same) and term borrowings from the Central Bank of Lebanon are reported on a net basis on the statement of financial position. At 31 December 2020, Lebanese Treasury bills of LBP 1,979,141 million were pledged against term borrowings from the Central Bank of Lebanon (2019: the same) (Note 31). In addition, the Group, in agreement with credit-linked depositors, settled deposits amounting to LBP 371,261 million in certificates of deposit with the Central Bank of Lebanon

denominated in US Dollars having the same nominal amount (Notes 29 and 33).

The Lebanese government Eurobonds were acquired during 2018 against a leverage arrangement with the Central Bank of Lebanon (refer to Note 31). During 2019, the amortised cost was adjusted by an amount equivalent to the present value of expected future cash flows from leverage arrangements. These financial instruments were mostly liquidated during 2020 at a price approximating their adjusted carrying amount net of the allowances for expected credit losses at 31 December 2019.

24.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 LBP Million	2019 LBP Million
Debt instruments		
Other sovereign		
Treasury bills and bonds	1,158,840	1,070,932
Private sector and other securities		
Banks and financial institutions debt instruments	293,819	15,180
	1,452,659	1,086,112
Equity instruments		
Quoted	176	176
Unquoted	65,538	68,605
	65,714	68,781
	1,518,373	1,154,893

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group classified the following instruments in private sector securities at fair value through other comprehensive income as it holds them for strategic reasons. The tables below list those equity instruments, dividends received, and the changes in fair value net of applicable taxes:

2020			
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	176	-	-
Unquoted:	65,538	9,438	32
Banque de l’Habitat sal	15,762	7,491	-
Other equity instruments	49,776	1,947	32
	65,714	9,438	32

2019			
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	176	-	-
Unquoted:	68,605	11,535	2,083
Banque de l’Habitat sal	16,350	10,095	-
Other equity instruments	52,255	1,440	2,083
	68,781	11,535	2,083

25.0. | INVESTMENTS IN ASSOCIATES

	Country of Incorporation	Activity	2020 Ownership %	2019 Ownership %	2020 LBP Million	2019 LBP Million
GlobalCom Holding sal	Lebanon	Communication	23.25%	31,00%	28,986	40,874
M1 Financial Technologies Holding sal	Lebanon	Services	30.00%	30.00%	69,117	69,117
Other associates					15,820	11,148
					113,923	121,139

INDIVIDUALLY MATERIAL ASSOCIATES

GlobalCom Holding sal and M1 Financial Technologies Holding sal are the only individually material investments in associates held by the Group. The following table illustrates the summarised financial information of the all material associates. The information disclosed reflects the amounts presented in the financial statements of the

relevant associates and not the Group’s share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policies.

	2020	2019	
	GlobalCom Holding sal LBP Million	GlobalCom Holding sal LBP Million	M1 Financial Technologies Holding sal LBP Million
Current assets	66,923	98,127	79,512
Non-current assets	67,594	51,635	39,549
Current liabilities	(62,431)	(98,526)	(60,692)
Non-current liabilities	(31,516)	(6,292)	(22,606)
Equity	40,570	44,944	35,763
Group’s share of equity	9,433	13,933	10,729
Goodwill	19,553	26,941	58,388
	28,986	40,874	69,117
Revenues	136,118	96,803	154,267
Expenses	(138,947)	(89,459)	(134,540)
(Loss) profit for the period	(2,829)	7,344	19,727
	(658)	2,277	5,918

GlobalCom Holding sal and M1 Financial Technologies Holding sal had no contingent liabilities or capital commitments as at 31 December 2020 (2019: the same).

During 2020, the Group received dividends in the amount of LBP 1,168 million from GlobalCom Holding sal (2019: LBP 1,168 million) and wrote off an amount of LBP 7,387 million (Note 13).

M1 FINANCIAL TECHNOLOGIES HOLDING SAL

The Group does not have summarised financial information for M1 Financial Technologies Holding sal for 2020.

determined by a value-in-use (“VIU”) calculation was lower than the carrying value and accordingly, the Group recorded an impairment loss of LBP 19,725 million (Note 13). Calculation was based on cash flow projections from financial budgets approved by Senior Management covering a five-year period, with a terminal growth rate of 2.00%. The forecast cash flows were discounted at a pre-tax rate of 15.90%.

OTHER ASSOCIATES

The aggregate amount of the Group’s share of profit of its individually immaterial associates amounted to a profit of LBP 988 million for the year ended 31 December 2020 (2019: LBP 1,080 million).

During 2019, the Group sold its investment in Assurex sal, an associate, to a third party for a total consideration of LBP 11,238 million. The disposal of this associate resulted in a loss of LBP 325 million. Accordingly, the Group share of Assurex sal’s other comprehensive income amounting to LBP 5,464 million was transferred to “retained earnings”.

26.0. | PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Right-of-use LBP Million	Other LBP Million	Total LBP Million
Cost or revaluation:									
At 1 January 2020	163,507	581,524	164,536	3,438	225,108	100,694	152,934	8,615	1,400,356
Additions	-	2,659	1,287	-	7,279	934	57	532	12,748
Movements related to discontinued operations, net	666	2,738	5,095	105	2,140	(116)	(380)	-	10,248
Disposals	-	(6,146)	(1,388)	-	(1,574)	(548)	(46,752)	-	(56,408)
Transfer to assets held for sale	(5,891)	(203,275)	(53,494)	(2,597)	(44,691)	(12,625)	(31,249)	-	(353,822)
Foreign exchange difference	-	6,452	(5,196)	21	(5,579)	(1,242)	(8,115)	699	(12,960)
At 31 December 2020	158,282	383,952	110,840	967	182,683	87,097	66,495	9,846	1,000,162
Depreciation:									
At 1 January 2020	-	-	114,647	2,264	170,603	81,362	27,605	6,689	403,170
Depreciation during the year	-	19,082	7,665	21	14,059	2,738	20,993	-	64,558
Depreciation related to discontinued operations	-	3,901	3,364	356	4,612	1,010	3,333	-	16,576
Disposals	-	(2,794)	(1,860)	-	(249)	(510)	(14,952)	-	(20,365)
Movements related to discontinued operations, net	-	-	(618)	(425)	-	(238)	-	-	(1,281)
Transfers	-	(1,968)	1,968	-	(94)	94	-	-	-
Transfer to assets held for sale	-	(6,578)	(31,181)	(1,324)	(31,136)	(9,255)	(8,164)	-	(87,638)
Foreign exchange difference	-	(229)	(3,469)	24	(5,001)	(1,090)	(2,152)	1,131	(10,786)
At 31 December 2020	-	11,414	90,516	916	152,794	74,111	26,663	7,820	364,234
Net book value:									
At 31 December 2020	158,282	372,538	20,324	51	29,889	12,986	39,832	2,026	635,928

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Right-of-use LBP Million	Other LBP Million	Total LBP Million
Cost or revaluation:									
At 1 January 2019	187,791	639,906	144,393	3,255	206,971	99,977	-	8,882	1,291,175
IFRS 16 adoption	-	-	-	-	-	-	143,252	-	143,252
Revaluation recognised in OCI	(23,618)	18,637	-	-	-	-	-	-	(4,981)
Revaluation adjustments	-	(85,929)	-	-	-	-	-	-	(85,929)
Additions	-	18,520	8,070	158	21,857	1,695	22,035	-	72,335
Disposals	(1,788)	(8,218)	(3,066)	(122)	(3,012)	(1,185)	(7,281)	-	(24,672)
Transfer	992	(17,757)	16,765	-	(472)	472	-	-	-
Foreign exchange difference	130	16,365	(1,626)	147	(236)	(265)	(5,072)	(267)	9,176
At 31 December 2019	163,507	581,524	164,536	3,438	225,108	100,694	152,934	8,615	1,400,356
Depreciation:									
At 1 January 2019	-	67,208	105,259	1,942	154,347	77,690	-	7,028	413,474
Revaluation adjustments	-	(85,929)	-	-	-	-	-	-	(85,929)
Depreciation during the year	-	19,097	8,487	43	15,652	3,810	25,664	57	72,810
Depreciation related to discontinued operations	-	1,835	2,813	340	4,559	861	3,795	-	14,203
Disposals	-	(1,311)	(1,900)	(116)	(2,916)	(1,058)	(2,885)	-	(10,186)
Transfer	-	(1,041)	1,042	-	(481)	480	-	-	-
Foreign exchange difference	-	141	(1,054)	55	(558)	(421)	1,031	(396)	(1,202)
At 31 December 2019	-	-	114,647	2,264	170,603	81,362	27,605	6,689	403,170
Net book value:									
At 31 December 2019	163,507	581,524	49,889	1,174	54,505	19,332	125,329	1,926	997,186

The Group has lease contracts for various items primarily comprising head offices and branches used in its operations. Leases of head offices and branches generally have lease terms between 1 and 30 years. The Group’s obligations under its leases are secured by the lessor’s title to

the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments.

REVALUATION OF LAND AND BUILDINGS

Pursuant to the decision of the Board of Directors held on 3 September 2014, the Group changed its accounting policy for measuring land and buildings and related improvements from the cost model to the revaluation model. Management determined that each constitutes a single class of asset under IFRS 13, based on the nature, characteristics and risks of the property. These assets are classified under Level 3 in the fair value hierarchy.

Fair value of the land and buildings and freehold improvements was determined using the market comparable method. The valuations have been performed by the valuer and are based on proprietary databases of prices of transactions for properties of similar nature, location and condition. As at the date of revaluation, the properties’ fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Description of valuation techniques used and key inputs to valuation of land and buildings:

	Valuation Technique	Significant Unobservable Inputs	Weighted Average	Fair Value LBP Million
Land:				
Lebanon	Market comparable method	Price per sqm	LBP 5 million ^(*)	153,331
Buildings and freehold improvements:				
Lebanon	Market comparable method	Price per sqm	LBP 3 million ^(*)	316,101
Switzerland	Market comparable method	Price per sqm	LBP 27 million	68,755

^(*) The above prices are based on the official exchange rate of 1,507.5 USD/LBP.

Significant increase (decrease) in the estimated price per square meter in isolation would result in significantly higher (lower) fair value on a linear basis.

If land, buildings, and related improvements were measured using the cost model, the carrying amounts as of 31 December would have been as follows:

	2020	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	64,666	430,561
Accumulated depreciation	-	(208,459)
Net book value	64,666	222,102

	2019	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	69,890	556,116
Accumulated depreciation	-	(201,567)
Net book value	69,890	354,549

27.0. | INTANGIBLE ASSETS

	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:			
At 1 January 2020	250,524	93	250,617
Additions	19,091	-	19,091
Movements related to discontinued operations, net	4,364	-	4,364
Transfer to assets held for sale	(49,365)	-	(49,365)
Foreign exchange difference	(10,914)	(20)	(10,934)
At 31 December 2020	213,700	73	213,773
Amortisation:			
At 1 January 2020	135,380	93	135,473
Amortisation during the year	21,640	-	21,640
Amortisation related to discontinued operations	7,030	-	7,030
Transfer to assets held for sale	(24,190)	-	(24,190)
Foreign exchange difference	(7,241)	(20)	(7,261)
At 31 December 2020	132,619	73	132,692
Net book value:			
At 31 December 2020	81,081	-	81,081

	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:			
At 1 January 2019	182,934	105	183,039
Additions	70,427	-	70,427
Foreign exchange difference	(2,837)	(12)	(2,849)
At 31 December 2019	250,524	93	250,617
Amortisation:			
At 1 January 2019	114,458	105	114,563
Amortisation during the year	19,488	-	19,488
Amortisation related to discontinued operations	5,041	-	5,041
Foreign exchange difference	(3,607)	(12)	(3,619)
At 31 December 2019	135,380	93	135,473
Net book value:			
At 31 December 2019	115,144	-	115,144

28.0. | ASSETS OBTAINED IN SETTLEMENT OF DEBT

The Group occasionally takes possession of assets in settlement of loans and advances. The Group is in the process of selling these assets.

Gains or losses on disposal are recognised in the consolidated income statement for the year.

	2020			2019		
	Financial Instruments LBP Million	Properties LBP Million	Total LBP Million	Financial Instruments LBP Million	Properties LBP Million	Total LBP Million
Cost:						
At 1 January	40,390	267,401	307,791	40,390	155,626	196,016
Additions	-	69,229	69,229	-	134,048	134,048
Disposals	(40,390)	(96,939)	(137,329)	-	(9,588)	(9,588)
Transfer to assets held for sale	-	(780)	(780)	-	-	-
Foreign exchange difference	-	(29,366)	(29,366)	-	(12,685)	(12,685)
At 31 December	-	209,545	209,545	40,390	267,401	307,791
Impairment:						
At 1 January	-	17,802	17,802	-	2,295	2,295
Impairment for the year	-	-	-	-	15,522	15,522
Related to disposals	-	(10,910)	(10,910)	-	-	-
Disposals	-	(517)	(517)	-	-	-
Foreign exchange difference	-	10	10	-	(15)	(15)
At 31 December	-	6,385	6,385	-	17,802	17,802
Net book value:						
At 31 December	-	203,160	203,160	40,390	249,599	289,989

During 2020, the Group sold assets obtained in settlement of debts resulting to a loss amounting to LBP 465 million.

In 2019, the impairment loss of LBP 15,522 million represents the write-down of assets obtained in settlement of debt as a result of the sudden decline in real estate prices due to the deep recession facing

Lebanon. The impairment loss was recognised in the consolidated income statement as a separate line item. The recoverable amount was based on fair value determined by the market comparable method. The fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Description of valuation techniques used and key inputs to valuation of properties:

	Valuation Technique	Significant Unobservable Inputs	Weighted Average
Lebanon:			
Land	Market comparable method	Price per sqm	LBP 0.3 million
Buildings	Market comparable method	Price per sqm	LBP 2 million

The above prices are based on the official exchange rate of 1,507.5 USD/LBP.

Significant increase (decrease) in the estimated price per square meter in isolation would result in significantly higher (lower) fair values on a linear basis.

29.0. | OTHER ASSETS

	2020 LBP Million	2019 LBP Million
Advances on acquisition of property and equipment	4,558	6,572
Advances on acquisition of intangible assets	2,878	4,097
Prepaid charges	36,945	41,112
Electronic cards and regularisation accounts	25,342	31,923
Receivables related to non-banking operations	19,534	40,507
Advances to staff	37,461	13,342
Hospitalisation and medical care under collection	43,764	43,626
Interest and commissions receivable	1,115	5,925
Funds management fees	51	78
Fiscal stamps, bullions and commemorative coins	1,119	1,212
Management and advisory fees receivable	353	827
Tax regularisation account	14,394	10,784
Other debtor accounts	163,324	182,801
Receivables from Central Bank of Lebanon under leverage arrangements	1,334,603	1,110,061
	1,685,441	1,492,867

As at 31 December 2020, other debtors’ accounts include an amount of LBP 76,362 million representing collateral under process of being repossessed against settlement of loans by a subsidiary (2019: LBP 98,452 million).

Receivables from the Central Bank of Lebanon under Leverage Arrangements

During 2018, the Group entered into leverage arrangements with the Central Bank of Lebanon against a simultaneous purchase of Lebanese government Eurobonds that were recorded at amortised cost. During 2019, the amortised cost was adjusted by an amount equivalent to the present value of expected future cash flows from leverage arrangements and recorded as “receivables from the Central Bank of Lebanon under leverage arrangements”. These financial instruments were mostly liquidated during 2020 at a price approximating their adjusted carrying amount net of the allowances for expected credit losses at 31 December 2019 (refer to Note 23). Remaining balance related to this transaction amounted to LBP 1,036,598 million as at 31 December 2020 (31 December 2019: LBP 1,110,061 million).

During 2018, the Group entered into leverage arrangements with the Central Bank of Lebanon against simultaneous time deposits with the latter denominated in US Dollars. During 2020, time deposits were derecognised for the acquisition of certificate of deposits. In agreement with the credit linked depositors, the Group settled deposits amounting to LBP 371,261 million in such certificates of deposit having the same nominal amount (Notes 23 and 33). As a result, the Group recognised the present value of future cash flows from the corresponding leverage arrangements as “receivables from the Central Bank of Lebanon under leverage arrangements” against net gain (loss) on financial assets at fair value through profit or loss (Note 8). Remaining balance related to this transaction amounted to LBP 298,005 million as at 31 December 2020.

30.0. | GOODWILL

	2020 LBP Million	2019 LBP Million
Cost:		
At 1 January	199,989	199,980
Foreign exchange difference	(38)	9
At 31 December	199,951	199,989
Impairment:		
At 1 January	157,567	157,567
At 31 December	157,567	157,567
Net book value:		
At 31 December	42,384	42,422

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganisations. Cash flow projections necessarily take into

account changes in the market in which a business operates including the level of growth, competitive activity, and the impacts of regulatory change. The Group performed its annual impairment test in December 2020 and 2019.

As at 31 December, the carrying amount of goodwill was allocated to the following CGUs:

	2020 LBP Million	2019 LBP Million
Private Banking – Switzerland	42,384	42,422

These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

RECOVERABLE AMOUNT

The Private Banking CGU in Switzerland is a separate legal entity offering Private Banking activities to its customers and is reported mainly under the Retail and Personal Banking business segment and the Europe geographical segment. The recoverable amount of this CGU was determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management

covering a five-year period, with a terminal growth rate of 2.00% (2019: 2.00%). The forecast cash flows were discounted at a pre-tax rate of 10.00% (2019: 10.00%). Based on these assumptions, the recoverable amount exceeds the carrying amount including goodwill by LBP 41,184 million (2019: LBP 61,510 million).

KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS AND SENSITIVITY TO CHANGES IN ASSUMPTIONS

The calculation of value in use for the Private Banking – Switzerland CGU is most sensitive to interest rate margins, cost of equity and the projected growth rates used to extrapolate cash flows beyond the budget period.

being evaluated. Projected terminal growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for the jurisdictional area where the operations reside.

The cost of equity assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk rate in the country concerned, and a premium to reflect the inherent risk of the business

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the units to exceed their recoverable amount. These are summarised in the table below which shows the details of the sensitivity of the above measures on the Group’s CGU’s value in use (VIU):

Private Banking – Switzerland		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.10% causes a decrease in the value in use by 0.30% (LBP 1,222 million) (2019: 0.28% (LBP 1,163 million)).
Cost of equity	The cost of equity is the return required for an investment to meet capital return requirements; it is often used as a capital budgeting threshold for required rate of return.	A decrease of 0.25% causes an increase in the value in use by 1.75% (LBP 7,223 million) (2019: 1.83% (LBP 7,599 million)).
Growth rate	Growth rate is the percentage change of the compounded annualised rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.	A decrease of 0.5% causes a decrease in the value in use by 2.25% (LBP 9,318 million) (2019: 2.41% (LBP 9,979 million)).

The following table presents the sensitivity of each input by showing the change required to individual current assumptions to reduce headroom to nil (breakeven) for the Private Banking CGU in Switzerland:

	2020	2019
Interest margin	(2.71%)	(3.76%)
Cost of equity	11.81%	12.78%
Growth rate	(0.79%)	(2.55%)

31.0. | DUE TO CENTRAL BANKS

	2020 LBP Million	2019 LBP Million
Central Bank of Lebanon		
Subsidised loans	691,990	803,600
Term borrowings under leverage arrangements	1,979,141	1,979,141
Other borrowings	720,731	2,798,525
Accrued interest	13,760	25,215
Other central banks		
Other borrowings	34,668	-
Repurchase agreements	584,018	45,481
	4,024,308	5,651,962

SUBSIDISED LOANS

As at 31 December 2020, subsidised loans consist of utilised amounts on facilities granted by the Central Bank of Lebanon for the purpose of lending to customers at subsidised rates in accordance with Decision No.

6116 dated 7 March 1996. Principals are repayable on monthly basis and based on the amounts withdrawn by the customers (2019: the same).

TERM BORROWINGS UNDER LEVERAGE ARRANGEMENTS

Leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in LBP, bearing an interest rate 2% per annum and having maturities ranging between 2027 and 2028, fully invested in Lebanese Treasury bills, certificates of deposit with the Central Bank of Lebanon in LBP, and blocked term placements with the Central Bank of Lebanon in LBP earning coupon rates ranging between 6.5% per annum and 10.5%. Simultaneously the Bank has either deposited term placements with the Central Bank of Lebanon in foreign currencies at 6.5% per annum and in LBP at 10.5% per annum (originated from the sale of foreign currencies to the Central Bank of Lebanon) carrying the same maturities; or purchased Lebanese government Eurobonds from the Central Bank of Lebanon. During 2019, the Bank and the Central

Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placement and pledged certificates of deposit with the Central Bank of Lebanon in LBP. This agreement qualifies for netting under the requirements of IAS 32.

The below table summarises the leverage arrangements and related financial assets subject to offsetting, and enforceable similar agreements, and whether offset is achieved in the statement of financial position. The table identifies the amounts that have been offset in the statement of financial position and also those amounts that are covered by enforceable netting arrangements (financial collateral) but do not qualify for netting under the requirements of IAS 32 described in the accounting policies:

	2020 LBP Million	2019 LBP Million
Leverage arrangements		
Gross amounts	11,104,631	13,872,030
Amounts offset against ⁽¹⁾		
Placement with the Central Bank of Lebanon (Note 16)	6,487,490	9,254,889
Certificates of deposit with the Central Bank of Lebanon (Note 23)	2,638,000	2,638,000
Net amounts reported on the statement of financial position	1,979,141	1,979,141
Financial collateral		
Lebanese Treasury bills (Note 23)	1,979,141	1,979,141
	1,979,141	1,979,141

⁽¹⁾ Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon and certificates of deposit with the Central Bank of Lebanon have also been reported on the statement of financial position net of the amounts above.

During 2020, financial assets and financial liabilities that were settled on a net basis amounted to LBP 2,767,399 million (Note 16).

REPURCHASE AGREEMENTS

The Group sells government bonds subject to a commitment to repurchase them (repurchase agreement). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting the transaction’s economic substance as a borrowing to the Group. As

the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on statement of financial position under:

	2020 LBP Million	2019 LBP Million
Financial assets at amortised cost – Non-Lebanese governmental bonds	31,409	55,195
Financial assets at fair value through comprehensive income – Non-Lebanese governmental bonds	552,641	1,066

32.0. | DUE TO BANKS AND FINANCIAL INSTITUTIONS AND REPURCHASE AGREEMENTS

	2020 LBP Million	2019 LBP Million
Current accounts	282,730	461,109
Term loans	632,170	777,934
Time deposits	455,785	308,531
Accrued interest	4,600	8,930
	1,375,285	1,556,504
Repurchase agreements	143,888	42,969
	1,519,173	1,599,473

Included in term loans above an amount of LBP 429,671 million (2019: LBP 520,050 million) representing loans granted from various supranational entities for the purpose of financing small and medium-size enterprises in the private sector, with annual interest rates ranging from 0.84% to 7.00% (2019: 0.83% to 5.68%).

As disclosed in Note 49, some financial covenants on credit facilities were breached and the Bank is in discussion with the lenders for their consent to defer principal debt payments in light of the social, economic and banking sector conditions in Lebanon and the impending government reform program. For the purpose of disclosing interest rate contractual repricing and remaining undiscounted contractual maturities in market and liquidity risk notes below, the Bank referred to the contractual maturities under the initial agreements.

REPURCHASE AGREEMENTS

The Group sells government bonds subject to a commitment to repurchase them (repurchase agreement). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting the transaction’s economic substance as a borrowing to the Group. As

the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on statement of financial position under:

	2020 LBP Million	2019 LBP Million
Financial assets at amortised cost – Non-Lebanese governmental bonds	84,141	59,655
Financial assets at fair value through comprehensive income – Non-Lebanese governmental bonds	134,143	-

33.0. | CUSTOMERS’ DEPOSITS

	2020			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Sight deposits	3,480,570	9,589,550	37,549	13,107,669
Time deposits	2,749,656	12,398,039	5,644	15,153,339
Saving accounts	234,362	3,428,073	-	3,662,435
Margins on LC’s and LG’s	95,397	11,683	85	107,165
Other margins	587	146	-	733
Other deposits	3,524	90,080	-	93,604
Banker's draft	-	165,750	-	165,750
	6,564,096	25,683,321	43,278	32,290,695
Deposits pledged as collateral				3,462,811

	2019			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Sight deposits	3,439,779	6,022,999	415,591	9,878,369
Time deposits	5,489,419	21,052,388	1,315,430	27,857,237
Saving accounts	309,851	3,905,653	-	4,215,504
Certificates of deposit	30,085	1,337,413	235	1,367,733
Margins on LC’s and LG’s	764,258	17,325	690	782,273
Other margins	17,878	13,344	-	31,222
Other deposits	56,461	38,571	-	95,032
Banker's draft	-	109,190	-	109,190
	10,107,731	32,496,883	1,731,946	44,336,560
Deposits pledged as collateral				4,164,992

Sight deposits include balances of bullion amounting to LBP 302,707 million (2019: LBP 303,997 million) which were carried at fair value through profit or loss.

Time deposits include balances amounting to LBP 230,443 million as at 31 December 2020 (2019: LBP 741,532 million), whereby the principal is settled at maturity according to the full discretion of the Group either in cash or in Lebanese government Eurobonds. During 2020, in agreement with such depositors, the Bank settled deposits amounting to LBP 371,261 million in certificates of deposits with the Central Bank of Lebanon denominated in US Dollars and having the same nominal amount (Notes 23 and 29).

Banker's draft as at 31 December 2020 and 2019 consist of checks paid to depositors that have not yet been withdrawn from the Central Bank of Lebanon or other Lebanese banks.

34.0. | DEPOSITS FROM RELATED PARTIES

	2020		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Sight deposits	18,424	40,736	59,160
Time deposits	8,119	92,971	101,090
Other deposits and margin accounts	2,255	514	2,769
	28,798	134,221	163,019
Deposits pledged as collateral			102,261

	2019		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Sight deposits	12,482	80,041	92,523
Time deposits	3,245	178,315	181,560
Other deposits and margin accounts	482	1,745	2,227
	16,209	260,101	276,310
Deposits pledged as collateral			96,952

35.0. | DEBT ISSUED AND OTHER BORROWED FUNDS

	2020 LBP Million	2019 LBP Million
USD 346,730,000 due 16 October 2023 – 6.75%	522,695	522,695
USD 112,500,000 due 11 April 2024 – 6.55% + Libor 6m	169,594	169,594
USD 37,500,000 due 11 April 2024 – 6.55% + Libor 6m	56,531	56,531
USD 276,000,000 (2019 : USD 283,000,000) due 1 August 2027 – 7.625%	419,673	421,370
Turkish bills	115,588	192,561
Accrued interests	33,732	30,888
	1,317,813	1,393,639

The principal of the loans is to be repaid at maturity. Any principal amount of the loans prepaid may not be re-borrowed. Prepayment on the loans is applicable as follows:

USD 346,700,000 due 16 October 2023 – 6.75%

The Group, at its sole discretion and after obtaining approval of the Central Bank of Lebanon, has the right to prepay all outstanding amounts (entirely and not partially) according to the following:

- First time, after five years from issuance and upon payment of interest thereafter.
- Without regard to the dates set above and according to the following:

- At any time after one year from the date of issuance, in the event of amendments to local and international laws and regulations, the subordinated bonds cannot be computed within the private funds of the Group (Tier 2).
- At any time after one year from the date of issuance for reasons related to the amendment of Lebanese taxation laws.

Subject to the prior approval of the Central Bank of Lebanon and to compliance with all applicable Lebanese laws and regulations, the issuer may, at any time after the anniversary of the issue date, purchase, or procure others to purchase for its account, Notes at any price.

During 2019, the Group acquired notes with a notional amount of USD 3,270,000 for a total consideration of USD 2,615,970. This transaction resulted in a gain of LBP 985 million.

On 12 February 2021, the Ordinary General Assembly of shareholders of the Bank approved the issuance of new unsecured subordinated notes (the 2021 Subordinated Notes), for up to USD 350,000,000. The terms of the new unsecured subordinated notes are subject to the approval of the Central Bank of Lebanon and the Lebanese Capital Market Authority.

USD 112,500,000 due 11 April 2024 – 6.55% + Libor 6m and USD 37,500,000 due 11 April 2024 – 6.55% + Libor 6m

The principal amount of the loan (and any interest accrued but unpaid) will rank (i) junior in right of payment to the claims of the holders of unsecured and unsubordinated payment obligations of the Bank; (ii) paripassu with the claims of holders of all other subordinated indebtedness of the Bank and (iii) in priority to the claims of shareholders of the Bank, including in respect of cash contributions to capital. Following satisfaction of unsubordinated claims as aforesaid, the lender shall be entitled to receive and to retain any payment or distribution in respect of the loan and all other amounts outstanding on a paripassu basis with other subordinated indebtedness.

If on a particular interest payment date, the Group does not have free profits available to pay the full amount of accrued and unpaid interest

then due in respect of the loan, the Group’s obligation to pay such interest shall be deferred and become due and payable on the next interest payment date, to the extent of free profits then available, and if not then available, such deferral shall continue until the interest payment date when all interests have been paid in full. Any unpaid and/or deferred interest shall be capitalised and paid in full on the final maturity date.

The Group determined that the matters disclosed in Note 1 will have an impact on the retained earnings and reserves leading to a need for recapitalization, the amount of which has not been determined yet due to the high level of uncertainty of resulting from these matters. This matter is under objection by the lender; however, the Group believes that it is in a strong position based on advice from its legal counsel. As at 31 December 2020, deferred interest payable amounted to LBP 18,739 million and was recorded under “Other liabilities” (Note 36). The Group shall, on any interest payment date or not less than 30 days' prior written notice, have the right to prepay the entire outstanding principal amount of the loan, in whole but not in part, together with accrued but unpaid interest thereon, and all other amounts payable, and subject to the approval of the Central Bank of Lebanon:

- In the event of a change in Lebanese law or regulation resulting in an increase in the withholding tax rate applicable to payments of interest on the loans to more than 5.00% above the rate in effect on the date of the disbursement. No penalty or premium shall be payable in connection with any prepayment following changes in taxation; or
- Subject to the payment of a premium of 2.00% of the outstanding principal amount of the loans to be prepaid, at the option of the Group, on any interest payment date at any time after the fifth anniversary of

36.0. | OTHER LIABILITIES

	2020 LBP Million	2019 LBP Million
Lease liabilities	42,416	149,853
Accrued expenses	58,953	104,134
Miscellaneous suppliers and other payables	31,928	22,801
Operational taxes	134,345	144,717
Employee accrued benefits	4,037	3,692
Electronic cards and regularisation accounts	31,360	49,618
Social security dues	3,898	6,315
Deferred interest payable (Note 35)	18,739	-
Other credit balances	120,577	102,934
	446,253	584,064

Set out below are the carrying amounts of lease liabilities and the movements during the year ended 31 December:

	2020 LBP Million	2019 LBP Million
Balance at 1 January	149,853	170,816
Additions	1,197	20,052
Termination	(38,886)	(9,133)
Interest expense	9,519	13,465
Result related to discontinued operations	-	1,765
Paid during the year	(37,261)	(42,177)
Transfer to assets held for sale	(35,386)	-
Foreign exchange	(6,620)	(4,935)
Balance at 31 December	42,416	149,853

During 2020, and due to the events occurring in Lebanon as described in Note 1, the Group has closed several branches and cancelled the related

the date on which the loan is disbursed.

USD 276,000,000 (2019: USD 283,000,000) due 1 August 2027 – 7.625%

On 1 August 2017, Odea Bank A.Ş. issued subordinated unsecured notes in the amount of USD 300 million to third parties. These notes mature on 1 August 2027 and pay semi-annual interest of 7.625%. The notes are listed on the Main Securities Market of the Irish Stock Exchange. Odea Bank A.Ş. shall repay the notes at maturity and may repay the notes in whole, but not in part, (1) starting from the fifth anniversary of the subordinated debt issuance date, or (2) due to changes in BRSA regulation if the loan ceases to be treated as Tier 2 capital under the applicable BRSA regulation. As of 31 December 2020, the total amount bought back amounted to USD 24 million (2019: USD 17 million). Odea Bank A.Ş. has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amount at any time is completely at Management’s discretion.

Turkish bills

Odea Bank A.Ş. issued bonds in TRY at discount maturing during the first 6 months of 2021 with effective interest rate of 13% (2019: maturing during the first 3 months of 2020 with effective interest rate of 13.00%).

Cash and Non-cash Changes in Debt Issued and Other Borrowed Funds

All changes in debt issued and other borrowed funds arise mainly from cash flows. Non-cash changes such as foreign exchange gains and losses were not significant during 2020 (2019: the same).

lease agreements. This has led to the write-off of right-of-use assets and derecognition of lease liabilities.

37.0. | PROVISIONS FOR RISKS AND CHARGES

	2020 LBP Million	2019 LBP Million
Provisions for risks and charges	46,618	52,127
Provisions for ECL on financial guarantees and commitments (Note 53)	23,853	40,074
End of service benefits	80,128	86,618
	150,599	178,819

PROVISIONS FOR RISKS AND CHARGES

	2020 LBP Million	2019 LBP Million
Provision for legal claims	8,447	10,779
Other provisions	38,171	41,348
	46,618	52,127

	2020 LBP Million	2019 LBP Million
Balance at 1 January	52,127	36,983
Add:		
Charge reflected under operating expenses (Note 13)	3,873	3,672
Charge reflected under other expenses	1,403	2,925
Transfer from current tax liability	6,619	5,096
Charge reflected under discontinued operations	1,208	3,707
Less:		
Paid during the year	(17)	(915)
Paid related to discontinued operations	(2,117)	-
Net provisions recoveries (Note 10)	(2,537)	(378)
Transfer to assets held for sale	(10,853)	-
Foreign exchange difference	(3,088)	1,037
Balance at 31 December	46,618	52,127

END OF SERVICE BENEFITS

Entities operating in Lebanon have two defined benefit plans covering all their employees. The first requires contributions to be made to the National Social Security Fund whereby the entitlement to and level of these benefits depend on the employees’ length of service, the employees’ salaries and contributions paid to the fund among other requirements. Under the second plan, no contributions are required to be made, however a fixed end of service lump sum amount should be paid for long service employees. The entitlement to and level of these end of service benefits provided depend on the employees’ length of service,

salaries and other requirements outlined in the Workers’ Collective Agreement. The first plan described above also applies to non-banking entities operating in Lebanon. Defined benefit plans for employees at foreign subsidiaries and branches are set in line with the laws and regulations of the respective countries in which these subsidiaries are located. The movement of provision for staff retirement benefit obligation is as follows:

	2020		
	Lebanon LBP Million	Foreign Countries LBP Million	Total LBP Million
Balance at 1 January	58,591	28,027	86,618
Charge for the year (Note 12)	8,105	4,017	12,122
Paid during the year	(23,750)	(2,950)	(26,700)
Actuarial gain on obligation – experience	(19,643)	(2,162)	(21,805)
Actuarial loss on obligation – economic assumptions	25,606	1,256	26,862
Net provisions recoveries	(9)	(351)	(360)
Advance received	1,558	-	1,558
Foreign exchange difference	-	1,833	1,833
Balance at 31 December	50,458	29,670	80,128

	2019		
	Lebanon LBP Million	Foreign Countries LBP Million	Total LBP Million
Balance at 1 January	75,667	16,110	91,777
Charge for the year (Note 12)	9,471	4,179	13,650
Paid during the year	(12,057)	(2,954)	(15,011)
Actuarial loss on obligation – experience	83	149	232
Actuarial loss on obligation – demographic assumptions	-	2,311	2,311
Actuarial (gain) loss on obligation – economic assumptions	(14,573)	7,481	(7,092)
Foreign exchange difference	-	751	751
Balance at 31 December	58,591	28,027	86,618

The charge for the year is broken down as follows:

	2020 LBP Million	2019 LBP Million
Current service cost	7,609	8,285
Interest on obligation	4,513	5,365
	12,122	13,650

The key assumptions used in the calculation of retirement benefit obligation are as follows:

	Lebanon		Switzerland	
	2020	2019	2020	2019
Economic assumptions				
Discount rate (p.a.)	6.50%	10.50%	0.05%	0.15%
Inflation rate (p.a.)	None	None	1.00%	1.00%
Salary increase (p.a.)				
Employees	25.00%	0.00%	1.25%	1.25%
Senior Managers	25.00%	1.50%	1.25%	1.25%
Expected annual rate of return on NSSF contributions	3.00%	5.00%	None	None
Expected future pension increases	None	None	1.25%	1.25%
Interest crediting rate	None	None	1.00%	1.00%
Treatment of bonus	None	3-year average as a % of basic	None	None
Demographic assumptions				
Retirement age	Earliest of age 64 or completion of 20 contribution years	Earliest of age 64 or completion of 20 contribution years	Age 65 for men and 64 for women	Age 65 for men and 64 for women
Pre-termination mortality	None	None	BVG 2015 + 1.5%	BVG 2015 + 1.5%
Pre-termination turnover rates (age related with average of)	3.50% – 7.50%	2.00% – 4.00%	4.40% – 28.50%	4.40% – 28.50%

A quantitative sensitivity analysis for significant assumptions is shown as below:

	Discount Rate		Future Salary Increase	
	% Increase LBP Million	% Decrease LBP Million	% Increase LBP Million	% Decrease LBP Million
Impact on net defined benefit obligation – 2020	(1,061)	1,104	2,014	(1,933)
Impact on net defined benefit obligation – 2019	(3,949)	4,272	2,731	(2,132)

The sensitivity analysis above was determined based on a method that extrapolates the impact on the defined benefit obligation as a result of 50 basis point changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

38.0. | SHARE CAPITAL AND ISSUE PREMIUM

SHARE CAPITAL

The share capital of Bank Audi sal as at 31 December is as follows:

	2020			2019		
	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million
Common shares	588,538,215	982,859	902,290	399,749,204	667,581	883,582
Preferred shares series “H”	750,000	1,252	111,811	750,000	1,252	111,811
Preferred shares series “I”	2,500,000	4,175	372,700	2,500,000	4,175	372,700
Preferred shares series “J”	2,750,000	4,593	409,969	2,750,000	4,593	409,969
	6,000,000	10,020	894,480	6,000,000	10,020	894,480
	594,538,215	992,879	1,796,770	405,749,204	677,601	1,778,062

To meet the requirements of the Central Bank of Lebanon towards increasing its regulatory capital by 20%, the Bank increased its capital by LBP 315,278 million effective 20 February 2020 through the issuance of 188,789,011 common shares at a nominal value of LBP 1,670.

LISTING OF SHARES

	2020		2019	
	Stock Exchange	Number of Shares	Stock Exchange	Number of Shares
Ordinary shares	Beirut	468,898,454	Beirut	280,109,443
Global depository receipts	Beirut	119,639,761	London SEAQ and Beirut	119,639,761
Preferred shares	Beirut	6,000,000	Beirut	6,000,000
		594,538,215		405,749,204

The Board of Directors has approved the delisting of the global depository receipts from the London SEAQ on 29 July 2020. The delisting became effective on 6 November 2020.

PREFERRED SHARES

2. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 15 April 2013, the Bank issued preferred shares series “H” under the following terms:

Preferred shares series “H”

- Number of shares:	750,000.
- Share’s issue price:	USD 100.
- Share’s nominal value:	LBP 1,299 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 4.5 per share for the year 2013, and USD 6.5 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 7 years after issuance, as well as to call them off by that date.

The Extraordinary General Assembly of shareholders held on 21 June 2013 validated and ratified the capital increases according to the aforementioned terms for preferred shares series “H”.

2. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 29 November 2016, the Bank issued preferred shares series “I” under the following terms:

Preferred shares series “I”

- Number of shares:	2,500,000.
- Share’s issue price:	USD 100.
- Share’s nominal value:	LBP 1,656 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 3 per share for the year 2016, and USD 7 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.
- Conversion:	Mandatorily convertible into 15 common shares in case: 1) common equity Tier 1 to risk-weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon; or 2) the Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 21 December 2016 validated and ratified the capital increase according to the aforementioned terms.

3. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 21 July 2017, the Bank issued preferred shares series “J” under the following terms:

Preferred shares series “J”

- Number of shares:	2,750,000.
- Share’s issue price:	USD 100.
- Share’s nominal value:	LBP 1,663 (later become LBP 1,670 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 4 per share for the year 2017, and USD 7 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date
- Conversion:	Mandatorily convertible into 15 common shares in case: 1) common equity Tier 1 to risk-weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon; or 2) the Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 27 October 2017 validated and ratified the capital increase according to the aforementioned terms.

PAID DIVIDENDS

In accordance with the resolution of the General Assembly of shareholders held on 12 April 2019, dividends were distributed from 2018 profits as follows:

	2019		
	Number of Shares	Distribution per Share LBP	Total LBP million
Preferred shares series “H”	750,000	9,799	7,349
Preferred shares series “I”	2,500,000	10,553	26,380
Preferred shares series “J”	2,750,000	10,553	29,021
Common shares	399,749,204	829	331,442
			394,192
Less: dividends on Treasury shares			(964)
			393,228

In accordance with the Central Bank of Lebanon Intermediate Circular 567, no dividends were distributed from 2019 profits.

39.0. | CASH CONTRIBUTION TO CAPITAL

In previous years, agreements were entered between the Bank and its shareholders whereby the shareholders granted cash contributions to the Bank amounting to USD 48,150,000 (equivalent to LBP 72,586 million) subject to the following conditions:

- These contributions will remain as long as the Bank performs banking activities.
- If the Bank incurs losses and has to reconstitute its capital, these contributions may be used to cover the losses if needed.

- The shareholders have the right to use these contributions to settle their share in any increase of capital.
- No interest is due on the above contributions.
- The above cash contributions are considered as part of Tier 1 capital for the purpose of determining the Bank’s capital adequacy ratio.
- The right to these cash contributions is for the present and future shareholders of the Bank.

40.0. | NON-DISTRIBUTABLE RESERVES

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	Total LBP Million
Balance at 1 January 2020	746,897	161,715	6,640	108,263	64,651	28,901	908,134	2,025,201
Appropriation of 2019 profits	12,552	1,923	-	14,854	(48,943)	10,435	-	(9,179)
Capital increase	-	-	-	-	-	-	315,278	315,278
Related to the merger (Note 46)	(49,526)	(42,983)	-	(12,105)	(873)	(391)	(40,602)	(122,270)
Transfers between reserves	(7)	-	-	-	-	-	-	(7)
Others	-	-	-	-	-	-	638	638
Balance at 31 December 2020	709,916	120,655	6,640	135,222	14,835	38,945	1,183,448	2,209,661

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	Total LBP Million
Balance at 1 January 2019	659,366	160,978	6,640	108,481	57,234	18,963	908,134	1,919,796
Appropriation of 2018 profits	82,741	606	-	-	44,205	9,851	-	137,403
Transfers between reserves	4,790	131	-	(218)	(36,788)	87	-	(31,998)
Balance at 31 December 2019	746,897	161,715	6,640	108,263	64,651	28,901	908,134	2,025,201

LEGAL RESERVE

The Lebanese Commercial Law and the Bank’s articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve is not available for dividend distribution.

The Bank and different subsidiaries transferred to legal reserve an amount of LBP 12,552 million (2019: LBP 82,741 million) as required by the laws applicable in the countries in which they operate.

RESERVES APPROPRIATED FOR CAPITAL INCREASE

The Group transferred LBP 1,923 million (2019: LBP 606 million) to reserves appropriated for capital increase. This amount represents the net gain on the disposal of fixed assets acquired in settlement of debt, in

addition to reserves on recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

GAIN ON SALE OF TREASURY SHARES

These gains arise from the Global Depository Receipts (GDRs) owned by the Group. Based on the applicable regulations, the Group does not have the right to distribute these gains.

OTHER RESERVES

According to the Central Bank of Lebanon’s Main Circular 143, banks in Lebanon are required to transfer to other reserves the balance of reserves for general banking risks and general reserves for loans and advances (totalling LBP 889,720 million) previously appropriated in line with the requirements of Decision 7129 and Decision 7776 respectively. This reserve is part of the Group’s equity and is not available for distribution.

During 2020, the Bank transferred from distributable reserves an amount of LBP 315,278 million equivalent to the capital increase.

RESERVE FOR UNREALISED REVALUATION GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As per the Banking Control Commission’s Circular 296 dated 4 June 2018, banks operating in Lebanon are required to appropriate in a special reserve from their annual net profits the value of gross unrealised profits

on financial assets at fair value through profit or loss. This reserve is not available for dividend distribution until such profits are realised and released to general reserves.

RESERVE FOR FORECLOSED ASSETS

The reserve for foreclosed assets represents appropriation against assets acquired in settlement of debt in accordance with the circulars of the Lebanese Banking Control Commission. Appropriations against assets

acquired in settlement of debt shall be transferred to unrestricted reserves upon the disposal of the related assets.

41.0. | DISTRIBUTABLE RESERVES

	General Reserves LBP Million	Loss on Sale of Subsidiary Warrants LBP Million	Cost of Capital Issued LBP Million	Total LBP Million
Balance at 1 January 2020	445,519	-	(12,462)	433,057
Appropriation of 2019 profits	(115,129)	-	5,004	(110,125)
Capital increase	(315,278)	-	-	(315,278)
Cost of capital	-	-	(3,638)	(3,638)
Related to the merger (Note 46)	49,005	-	-	49,005
Transfer between reserves	(35,724)	-	-	(35,724)
Other movements	(27)	-	-	(27)
Balance at 31 December 2020	28,366	-	(11,096)	17,270

	General Reserves LBP Million	Loss on Sale of Subsidiary Warrants LBP Million	Cost of Capital Issued LBP Million	Total LBP Million
Balance at 1 January 2019	447,122	(1,345)	(15,092)	430,685
Sale of an associate	1,626	-	-	1,626
Cancellation of warrants	-	1,345	-	1,345
Transfer between reserves	(3,171)	-	2,630	(541)
Treasury shares transactions	(58)	-	-	(58)
Balance at 31 December 2019	445,519	-	(12,462)	433,057

42.0. | PROPOSED DIVIDENDS

In accordance with the Central Bank of Lebanon’s Intermediate Circular 567, the Board of Directors does not propose the payment of dividends for 2019 and 2020.

43.0. | TREASURY SHARES

	2020		2019	
	Number of Shares	Cost LBP Million	Number of Shares	Cost LBP Million
Balance at 1 January	1,172,382	9,190	1,152,594	9,073
Purchase of treasury shares	-	-	30,488	200
Sale of treasury shares	-	-	(10,700)	(30)
Loss	-	-	-	(53)
Balance at 31 December	1,172,382	9,190	1,172,382	9,190

44.0. | OTHER COMPONENTS OF EQUITY

2020								
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Group Share of Associates' Other Comprehensive Income LBP Million	Change in Time Value of Hedging Instruments LBP Million	Cash Flow Hedge Reserve LBP Million	Total LBP Million
Balance at 1 January 2020	338,024	25,317	(1,588,710)	(8,368)	-	-	(18,845)	(1,252,582)
Other comprehensive income from continuing operations	-	3,804	(87,981)	(4,083)	-	-	(1,099)	(89,359)
Other comprehensive income from discontinued operations	-	4,452	(1,235)	-	-	-	-	3,217
Transfer between reserves	(965)	(1,644)	-	-	-	-	-	(2,609)
Transfer related to assets held for sale	-	(11,395)	599,272	-	-	-	-	587,877
Balance at 31 December 2020	337,059	20,534	(1,078,654)	(12,451)	-	-	(19,944)	(753,456)

2019								
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Group Share of Associates' Other Comprehensive Income LBP Million	Change in Time Value of Hedging Instruments LBP Million	Cash Flow Hedge Reserve LBP Million	Total LBP Million
Balance at 1 January 2019	357,137	(6,319)	(1,567,917)	(13,030)	5,464	-	(19,391)	(1,244,056)
Other comprehensive income from continuing operations	(59,804)	13,921	(76,439)	4,662	-	-	546	(117,114)
Other comprehensive income from discontinued operations	40,691	12,256	55,646	-	-	-	-	108,593
Sale of financial assets at FVTOCI	-	5,459	-	-	-	-	-	5,459
Sale of an associate	-	-	-	-	(5,464)	-	-	(5,464)
Balance at 31 December 2019	338,024	25,317	(1,588,710)	(8,368)	-	-	(18,845)	(1,252,582)

REAL ESTATE REVALUATION RESERVE

Effective 31 December 2014, the Group made a voluntary change in its accounting policy for subsequent measurement of two classes of property and equipment being i) Land and ii) Building and Building Improvements from cost to revaluation model.

CUMULATIVE CHANGES IN FAIR VALUE

The cumulative changes as at 31 December represent the fair value differences from the revaluation of financial assets measured at fair value through other comprehensive income. The movement during the year can be summarised as follows:

	Change in Fair Value LBP Million	Deferred Tax LBP Million	Net LBP Million
Balance at 1 January 2020	29,004	(3,687)	25,317
Other comprehensive income from continuing operations	4,296	(492)	3,804
Other comprehensive income from discontinued operations	5,629	(1,177)	4,452
Transfer related to assets held for sale	(15,873)	4,478	(11,395)
Transfer between reserves	(1,644)	-	(1,644)
Balance at 31 December 2020	21,412	(878)	20,534

Balance at 1 January 2019	(7,543)	1,224	(6,319)
Other comprehensive income from continuing operations	18,547	(4,626)	13,921
Other comprehensive income from discontinued operations	13,391	(1,135)	(12,256)
Sale of financial assets at FVOCI	5,459	-	5,459
Adjustments	(850)	850	-
Balance at 31 December 2019	29,004	(3,687)	25,317

45.0. | ASSETS AND LIABILITIES HELD FOR SALE

Bank Audi sae

On 20 January 2021, the Bank signed a shares purchase agreement for the sale of 34,700,000 shares in Bank Audi sae, comprising the entire issued share capital of the latter. On 15 April 2021, the conditions precedent to completion have been satisfied with the execution of the transfer of shares completed on 28 April 2021. The parties agreed on a purchase price for the shares less reductions (if any) made pursuant to the contract. No impairment for Bank Audi sae has been recognised under IFRS 5 as at 31 December 2020. Impairment under IFRS 5 is calculated as the difference between fair value less disposal costs and the carrying value of the disposal group. The fair value is determined by reference to the purchase price agreed upon between the two parties, taking into consideration cash collateral and potential reductions to be made pursuant to the contract. The fair value less disposal costs and the expected contribution exceeds the net asset value as at 31 December 2020.

Banking Operations in Jordan and Iraq

On 29 December 2020, the Bank signed business transfer agreements to sell and transfer the assets of its banking business and operations carried on in Jordan and Iraq (together with the assumed liabilities), excluding certain matters, to a third party and to assume obligations imposed on the Bank under the agreements. The sale and transfer confirmation deed was executed on 11 March 2021. Impairment for the Group's banking operations in Jordan and Iraq has been recognised under IFRS 5 as at 31 December 2020. Impairment under IFRS 5 is calculated as the difference between fair value less disposal costs and the carrying value of the disposal group. The fair value is determined by reference to the purchase price agreed upon between the two parties, taking into consideration cash collateral and potential reductions to be made pursuant to the contract.

Assets and liabilities included in disposal groups classified as held for sale:

	2020		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Cash and balances with central banks	1,511,215	201,192	1,712,407
Due from banks and financial institutions	298,138	57,262	355,400
Loans to banks and financial institutions and reverse repurchase agreements	35,367	-	35,367
Derivative financial instruments	105	-	105
Financial assets at fair value through profit or loss	3,083	-	3,083
Loans and advances to customers at amortised cost	2,883,386	517,021	3,400,407
Loans and advances to related parties at amortised cost	-	325	325
Debtors by acceptances	18,180	6,388	24,568
Financial assets at amortised cost	636,837	366,771	1,003,608
Financial assets at fair value through other comprehensive income	2,645,689	3,613	2,649,302
Property and equipment and right-of-use assets	219,015	47,169	266,184
Intangible assets	23,818	1,357	25,175
Assets obtained in settlement of debt	780	-	780
Other assets	29,441	9,283	38,724
Deferred tax assets	-	12,560	12,560
Total	8,305,054	1,222,941	9,527,995
Balance of impairment unallocated under IFRS 5		(34,848)	(34,848)
Total assets classified as held for sale	8,305,054	1,188,093	9,493,147
Due to central banks	1,935	51,602	53,537
Due to banks and financial institutions	296,355	17,330	313,685
Derivative financial instruments	75	17	92
Customers' deposits	6,955,912	969,157	7,925,069
Deposits from related parties	-	1,629	1,629
Engagements by acceptances	18,180	6,388	24,568
Other liabilities	54,713	33,829	88,542
Current tax liabilities	28,893	6,853	35,746
Deferred tax liabilities	29,925	957	30,882
Provisions for risks and charges	17,416	11,435	28,851
Total liabilities classified held for sale	7,403,404	1,099,197	8,502,601
Net assets (liabilities) classified as held for sale	901,650	88,896	990,546
Reserves related to assets held for sale.			
Cumulative changes in fair value	11,395	-	11,395
Foreign currency translation reserve	(583,222)	(16,050)	(599,272)
	(571,827)	(16,050)	(587,877)

a) The carrying value of the disposal group is stated after the elimination of internal balances between Bank Audi Egypt sae, Bank Audi Jordan and Bank Audi Iraq branches, and the remaining entities within the Group. Internal balances have been considered in determining the carrying value of the disposal groups held for sale for the purposes of measuring the disposal group at the lower of carrying amount and fair value less costs to sell.

The disposal groups above meet the requirements for presentation as a discontinued operation. As such, the results, which have been presented as the profit after tax and non-controlling interest in respect of the discontinued operation on the face of the Group income statement, are analysed in the income statement below.

	2020		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Interest and similar income	787,594	76,412	864,006
Interest and similar expense	(491,447)	(35,897)	(527,344)
Net interest income	296,147	40,515	336,662
Fee and commission income	49,237	22,357	71,594
Fee and commission expense	(4,306)	(1,780)	(6,086)
Net fee and commission income	44,931	20,577	65,508
Net gain on financial assets at fair value through profit or loss	6,345	12,459	18,804
Non-interest revenues from financial assets at fair value through other comprehensive income	631	-	631
Other operating income	568	102	670
Total operating income	348,622	73,653	422,275
Net impairment loss on financial assets	(31,730)	(2,241)	(33,971)
Net operating income	316,892	71,412	388,304
Personnel expenses	(62,440)	(21,332)	(83,772)
Other operating expenses	(47,330)	(20,863)	(68,193)
Depreciation of property and equipment and right-of-use assets	(11,730)	(4,846)	(16,576)
Amortisation of intangible assets	(4,815)	(2,215)	(7,030)
Total operating expenses	(126,315)	(49,256)	(175,571)
Operating profit	190,577	22,156	212,733
Net gain on revaluation and disposal of fixed assets	195	-	195
Profit before tax	190,772	22,156	212,928
Income tax	(69,090)	(8,735)	(77,825)
Profit for the year	121,682	13,421	135,103
Impairment unallocated under IFRS 5	-	(34,848)	(34,848)
Profit for the year from discontinued operations	121,682	(21,427)	100,255

	2019		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Interest and similar income	789,119	100,893	890,012
Interest and similar expense	(540,339)	(50,814)	(591,153)
Net interest income	248,780	50,079	298,859
Fee and commission income	52,144	19,469	71,613
Fee and commission expense	(2,982)	(1,197)	(4,179)
Net fee and commission income	49,162	18,272	67,434
Net gain on financial assets at fair value through profit or loss	8,439	6,609	15,048
Non-interest revenues from financial assets at fair value through other comprehensive income	853	-	853
Other operating income	(35)	(4)	(39)
Total operating income	307,199	74,956	382,155
Net impairment loss on financial assets	(37,750)	(7,714)	(45,464)
Net operating income	269,449	67,242	336,691
Personnel expenses	(52,113)	(18,539)	(70,652)
Other operating expenses	(44,677)	(14,259)	(58,936)
Depreciation of property and equipment and right-of-use assets	(7,828)	(6,375)	(14,203)
Amortisation of intangible assets	(4,076)	(965)	(5,041)
Total operating expenses	(108,694)	(40,138)	(148,832)
Operating profit	160,755	27,104	187,859
Net (loss) on revaluation and disposal of fixed assets	(237)	-	(237)
Profit before tax	160,518	27,104	187,622
Income tax	(41,925)	(9,246)	(51,171)
Profit for the year	118,593	17,858	136,451

Other comprehensive income relating to discontinued operations is as follows:

	2020		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Profit for the year	121,682	(21,427)	100,255
Other comprehensive income (loss) that will be reclassified to the income statement in subsequent periods			
Foreign currency translation			
Exchange differences on translation of foreign operations	14,178	(15,413)	(1,235)
Net foreign currency translation	14,178	(15,413)	(1,235)
Debt instruments at fair value through other comprehensive income			
Change in fair value during the year	9,943	-	9,943
Gain reclassified to income statement	(4,712)	-	(4,712)
Tax effects	(1,177)	-	(1,177)
Net loss on debt instruments at fair value through other comprehensive income	4,054	-	4,054
Total other comprehensive income (loss) that will be reclassified to the income statement in subsequent periods	18,232	(15,413)	2,819
Other comprehensive income (loss) that will not be reclassified to the income statement in subsequent periods			
Equity instruments at fair value through other comprehensive income			
Net unrealised gains	-	398	398
Total other comprehensive income that will not be reclassified to the income statement in subsequent periods	-	398	398
Other comprehensive income for the year, net of tax	18,232	(15,015)	3,217
Total comprehensive income (loss) for the year, net of tax	139,914	(36,442)	103,472

Other comprehensive income relating to discontinued operations is as follows:

	2019		
	Bank Audi sae LBP Million	Jordan Operations LBP Million	Total LBP Million
Profit for the year	118,593	17,858	136,451
Other comprehensive income (loss) that will be reclassified to the income statement in subsequent periods			
<i>Foreign currency translation</i>			
Exchange differences on translation of foreign operations	55,603	43	55,646
<i>Net foreign currency translation</i>	55,603	43	55,646
<i>Debt instruments at fair value through other comprehensive income</i>			
Change in fair value during the year	14,450	-	14,450
Gain reclassified to income statement	(847)	-	(847)
Tax effects	(1,156)	-	(1,156)
<i>Net gain on debt instruments at fair value through other comprehensive income</i>	12,447	-	12,447
Total other comprehensive income that will be reclassified to the income statement in subsequent periods	68,050	43	68,093
Other comprehensive income (loss) that will not be reclassified to the income statement in subsequent periods			
<i>Equity instruments at fair value through other comprehensive income</i>			
Net unrealised losses	(8)	(204)	(212)
Tax effects	21	-	21
<i>Net unrealised income (losses) on equity instruments at fair value through other comprehensive income</i>	13	(204)	(191)
<i>Revaluation of lands and buildings</i>			
Revaluation gain	50,491	2,518	53,009
Tax effects	(11,361)	(957)	(12,318)
<i>Net gain on revaluation of lands and buildings</i>	39,130	1,561	40,691
Total other comprehensive income that will not be reclassified to the income statement in subsequent periods	39,143	1,357	40,500
Other comprehensive income for the year, net of tax	107,193	1,400	108,593
Total comprehensive income for the year, net of tax	225,786	19,258	245,044

The cash flows attributed to the discontinued operations are as follows:

	2020		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Net cash flows from operating activities	360,511	228,552	589,063
Net cash flows from investing activities	(337,227)	(96,241)	(443,468)
Net cash flows from financing activities	(84,890)	8,404	(76,486)
Net (decrease)/increase in cash and cash equivalents	(61,606)	140,715	79,109

	2019		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Net cash flows from operating activities	914,375	(151,326)	763,049
Net cash flows from investing activities	(403,223)	7,850	(395,373)
Net cash flows from financing activities	(78,204)	21,215	(56,989)
Net increase/(decrease) in cash and cash equivalents	432,948	(122,261)	310,687

46.0. | GROUP SUBSIDIARIES

A. LIST OF SIGNIFICANT SUBSIDIARIES

The following table shows information related to the significant subsidiaries of the Bank.

	Percentage of Ownership		Country of Incorporation	Principal Activity	Functional Currency
	2020	2019			
Bank Audi France sa	100.00	100.00	France	Banking (Commercial)	EUR
Audi Investment Bank sal	-	100.00	Lebanon	Banking (Investment)	LBP
Audi Private Bank sal	-	100.00	Lebanon	Banking (Private)	LBP
Banque Audi (Suisse) SA	100.00	100.00	Switzerland	Banking (Private)	CHF
Bank Audi sae	100.00	100.00	Egypt	Banking (Commercial)	EGP
Audi Capital (KSA)	99.99	99.99	Saudi Arabia	Financial Services	SAR
Bank Audi LLC (Qatar)	100.00	100.00	Qatar	Banking Services	QAR
Société Libanaise de Factoring sal	100.00	100.00	Lebanon	Factoring	LBP
Odea Bank A.Ş.	76.42	76.42	Turkey	Banking (Commercial)	TRY
Audi Investments Holding sal	100.00	100.00	Lebanon	Investment	USD

On 15 December 2020, Bank Audi sal obtained the final approval of the Central Council of the Central Bank of Lebanon to:

a) Purchase the assets, liabilities, rights and obligations of Audi Private Bank sal (APB) and Audi Investment Bank sal (AIB) in accordance with Article 10 of the merger law No.192/93 and related amendments.

b) Cancel the license of APB and AIB from the list of banks.

c) Grant the merging bank a one-year grace period starting 15 December 2020 to resolve the excess in its foreign currency position as a result of the merger.

The purchase of the assets, liabilities, rights and obligations of APB and AIB were accomplished on 24 December 2020.

B. SIGNIFICANT RESTRICTIONS

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate.

The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group, and comply with other ratios.

C. NON-CONTROLLING INTERESTS

Odea Bank A.Ş is the only subsidiary of the Group that has a material non-controlling interest with 23.58% equity interests held by non-controlling interests as at 31 December 2020 (2019: the same).

MATERIAL PARTIALLY OWNED SUBSIDIARIES

	Odea Bank A.Ş.	
	2020	2019
	%	%
Proportion of equity interests held by non-controlling interests	23.58%	23.58%

Financial information relating to Odea Bank A.Ş. is provided below:

SUMMARISED STATEMENT OF PROFIT OR LOSS

	Odea Bank A.Ş.	
	2020	2019
	LBP Million	LBP Million
Net interest income	188,727	254,105
Net fee and commission income	24,787	42,813
Net gain (loss) on financial assets at fair value through profit or loss	10,574	(10,493)
Net gain on financial assets at amortised cost	-	45
Other operating income	13,219	3,861
Total operating income	237,307	290,331
Net credit losses	(50,868)	(97,518)
Total operating expenses	(149,920)	(168,741)
Profit before tax	36,519	24,072
Income tax	(7,333)	(5,066)
Profit for the year	29,186	19,006
Attributable to non-controlling interests	6,882	4,482
Dividends paid to non-controlling interests	-	-

SUMMARISED STATEMENT OF FINANCIAL POSITION

	Odea Bank A.Ş.	
	2020	2019
	LBP Million	LBP Million
ASSETS		
Cash and balances with central banks	1,000,691	916,343
Due from banks and financial institutions	578,114	769,704
Loans to banks and financial institutions and reverse repurchase agreements	259,789	662,232
Due from related financial institutions	39,255	67,822
Derivative financial instruments	461,796	352,056
Financial assets at fair value through profit or loss	40,691	1,037
Loans and advances to customers at amortised cost	3,778,573	4,184,675
Debtors by acceptances	2,003	100,275
Financial assets at amortised cost	216,253	585,715
Financial assets at fair value through other comprehensive income	1,453,707	290,694
Property and equipment	38,807	53,795
Intangible assets	19,989	18,955
Assets obtained in settlement of debt	138,059	149,608
Other assets	185,058	214,508
TOTAL ASSETS	8,212,785	8,367,419
LIABILITIES		
Due to central banks	618,736	1,017
Due to banks and financial institutions	334,399	417,517
Due to banks under repurchase agreement	143,888	42,972
Due to related financial institutions	131,713	275,083
Derivative financial instruments	448,911	319,477
Customers' deposits	5,116,214	5,605,084
Debt issued and other borrowed funds	548,560	632,364
Engagements by acceptances	2,003	100,275
Other liabilities	125,111	106,942
Provisions for risks and charges	33,802	30,674
TOTAL LIABILITIES	7,503,337	7,531,405
TOTAL SHAREHOLDERS' EQUITY	709,448	836,014
<i>Of which: non-controlling interests</i>	<i>167,288</i>	<i>197,142</i>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,212,785	8,367,419

SUMMARISED CASH FLOW INFORMATION

	2020	2019
	LBP Million	LBP Million
Operating activities	105,471	169,707
Investing activities	(793,115)	(144,176)
Financing activities	(861)	142,367
	(688,505)	167,898

47.0. | CASH AND CASH EQUIVALENTS

	2020 LBP Million	2019 LBP Million
Cash and balances with central banks	5,905,963	6,204,884
Due from banks and financial institutions	2,190,265	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	95,791	521,653
Due to central banks	(618,643)	(1,588,706)
Due to banks and financial institutions	(1,050,485)	(802,690)
Due to banks under repurchase agreement	(143,888)	-
	6,379,003	6,513,047

Cash and balances with central banks include amounts of LBP 2,051,126 million at 31 December 2020 (2019: LBP 2,076,309 million) representing mandatory reserve deposits and balances.

Cash and cash equivalents include balances in foreign currencies that are subject to unofficial capital controls and restricted transfers outside

Lebanon. Accordingly, these balances are not considered readily convertible to known amounts of cash in the denomination currency without a risk of changes in value. However, the Group maintains their classification as cash and cash equivalents as they are freely transferrable within the Lebanese territory. These balances were as follows as at 31 December 2020 and 31 December 2019:

	2020 LBP Million	2019 LBP Million
Balances with central banks	1,146,190	954,038
Due from banks and financial institutions	97,091	88,813
	1,243,287	1,042,851

48.0. | FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent

QUOTED MARKET PRICES – LEVEL 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and

the value of these instruments to the Group as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below:

regularly occurring market transactions on an arm’s length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

VALUATION TECHNIQUE USING OBSERVABLE INPUTS – LEVEL 2

Financial instruments classified as Level 2 have been valued using models whose most significant inputs are derived directly or indirectly from observable market data. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical

instruments in inactive markets, and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads.

VALUATION TECHNIQUE USING SIGNIFICANT UNOBSERVABLE INPUTS – LEVEL 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs).

EFFECTS OF EXCHANGE RATES ON THE FAIR VALUE MEASUREMENTS:

The fair value disclosures for other assets and liabilities are first determined in their original currency, which is not the Lebanese Pound in the case of most of the assets and liabilities reported below. These are then translated to Lebanese Pounds at the official exchange rate of 1,507.5 USD/LBP in accordance with IAS 21, due to the lack of an alternative legal exchange mechanism. However, in light of the high deviation between the parallel market rate and the official exchange rates, Management estimates that the amounts reported in this note in LBP do not reflect a reasonable estimate of expected cash flows in Lebanese Pounds that would have

to be generated from the realisation of such assets or the payment of such liabilities at the date of the financial statements. In the absence of an alternative legal exchange mechanism, Management is unable to estimate the effects on the fair value measurement. This matter should be taken into consideration when interpreting the fair value disclosures in this note, especially those under Level 1 and Level 2. Classification within Levels 1 and 2 do not take into consideration the “lack of observability” of the exchange rate.

FAIR VALUE MEASUREMENT HIERARCHY OF THE FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE

	2020			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	485	13,879	-	14,364
Currency swaps	4,779	129,919	-	134,698
Precious metals swaps	8	-	-	8
Currency options	10,825	4,570	-	15,395
Interest rate swaps	378	12,296	-	12,674
Interest rate options	-	38,682	-	38,682
Equity options	2,999	-	-	2,999
	19,474	199,346	-	218,820
Financial assets at fair value through profit or loss				
<i>Lebanese sovereign and Central Bank of Lebanon</i>				
Treasury bills	-	691	-	691
Eurobonds	143	-	-	143
<i>Other sovereign</i>				
Treasury bills and bonds	4,253	42	-	4,295
<i>Private sector and other securities</i>				
Banks and financial institutions	325,426	-	-	325,426
Loans and advances to customers	-	7,124	-	7,124
Mutual funds	-	6,051	46,105	52,156
Equity instruments	14	2,218	-	2,232
	329,836	16,126	46,105	392,067
Financial assets designated at fair value through other comprehensive income				
<i>Debt instruments</i>				
<i>Other sovereign</i>				
Treasury bills and bonds	1,158,840	-	-	1,158,840
<i>Private sector and other securities</i>				
Banks and financial institutions	293,819	-	-	293,819
<i>Equity instruments</i>				
Quoted	176	-	-	176
Unquoted	-	266	65,272	65,538
	1,452,835	266	65,272	1,518,373
	1,802,145	215,738	111,377	2,129,260

	2020			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL LIABILITIES				
Derivative financial instruments				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	324	7,082	-	7,406
Forward precious metals contracts	79	-	-	79
Currency swaps	8,091	130,779	-	138,870
Precious metals swaps	3,022	-	-	3,022
Currency options	10,825	7,455	-	18,280
Equity options	2,999	-	-	2,999
<i>Derivatives held for fair value hedge</i>				
Interest rate swaps	-	276,137	-	276,137
	25,340	421,453	-	446,793
Customers' deposits – sight	302,707	-	-	302,707
	328,047	421,453	-	749,500

	2019			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	5,981	4,437	-	10,418
Currency swaps	15,908	149,911	-	165,819
Precious metals swaps	88	-	-	88
Currency options	-	59,316	-	59,316
Interest rate swaps	407	43,766	-	44,173
Credit derivatives	-	3,137	-	3,137
Equity options	5,638	-	-	5,638
<i>Derivatives held to hedge net investments in foreign operations</i>				
Currency swaps	2,335	-	-	2,335
	30,357	260,567	-	290,924
Financial assets at fair value through profit or loss				
<i>Lebanese sovereign and Central Bank of Lebanon</i>				
Treasury bills	-	722	-	722
Eurobonds	36	-	-	36
<i>Other sovereign</i>				
Treasury bills and bonds	1,038	-	-	1,038
<i>Private sector and other securities</i>				
Banks and financial institutions	294,053	-	-	294,053
Loans and advances to customers	-	18,157	-	18,157
Mutual funds	3,247	9,647	54,177	67,071
Equity instruments	5	-	-	5
	298,379	28,526	54,177	381,082
Financial assets at fair value through other comprehensive income				
<i>Debt instruments</i>				
<i>Other sovereign</i>				
Treasury bills and bonds	272,347	798,585	-	1,070,932
<i>Private sector and other securities</i>				
Banks and financial institutions	15,180	-	-	15,180
<i>Equity instruments</i>				
Quoted	176	-	-	176
Unquoted	-	2,153	66,452	68,605
	287,703	800,738	66,452	1,154,893
	616,439	1,089,831	120,629	1,826,899

	2019			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL LIABILITIES				
Derivative financial instruments				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	9,060	8,848	-	17,908
Forward precious metals contracts	29	-	-	29
Currency swaps	15,500	123,546	-	139,046
Precious metals swaps	2,652	-	-	2,652
Currency options	-	11,894	-	11,894
Interest rate swaps	412	29,992	-	30,404
Equity options	4,087	-	-	4,087
<i>Derivatives held as cash flow hedge</i>				
Interest rate swaps	-	8,377	-	8,377
<i>Derivatives held for fair value hedge</i>				
Interest rate swaps	-	157,705	-	157,705
	31,740	340,362	-	372,102
Customers' deposits – sight	303,997	-	-	303,997
	335,737	340,362	-	676,099

VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3

Interest Rate Derivatives

Interest rate derivatives include interest rate swaps and interest rate options. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations by estimating future cash flows and discounting them with the appropriate yield curves incorporating funding costs relevant for the position. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case they are Level 3. The Group does not have interest rate derivatives classified as Level 3.

Foreign Exchange Derivatives

Foreign exchange contracts include open spot contracts, foreign exchange forward and swap contracts and over-the-counter foreign exchange options. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Group classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole). The Group does not have foreign exchange derivatives classified as Level 3.

Government Bonds, Certificates of Deposit and Other Debt Instruments

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. The Group does not have Level 3 government bonds, certificates of deposit and other debt instruments.

The movement of items recurrently measured at fair value categorised within Level 3 during the year is as follows:

	2020		2019	
	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million
FINANCIAL ASSETS				
Balance at 1 January	54,177	66,452	100,643	70,924
Re-measurement recognised in other comprehensive income	-	(1,994)	-	4,522
Related to discontinued operations	-	-	-	(191)
Purchases	-	1,103	-	4,673
Sales	(8,072)	-	(46,466)	(13,158)
Foreign exchange difference	-	(289)	-	(318)
Balance at 31 December	46,105	65,272	54,177	66,452

Loans and Advances to Customers at Fair Value through Profit or Loss

The fair value of loans and advances to customers that fall in this category is estimated using discounted cash flows by applying current market rates for new loans with similar remaining maturities and to counterparties with similar credit risk. The Group does not have Level 3 loans and advances to customers at fair value through profit or loss.

Funds and Equity Shares of Non-listed Entities

Units held in funds are measured based on their net asset value (NAV), taking into account redemption and/or other restrictions. Classification between Level 2 and Level 3 is dependent on whether the NAV is observable or unobservable (i.e. recent and published by the fund administrator or not).

Equity shares of non-listed entities comprise mainly the Group’s strategic investments, are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee’s financial position and results since initial recognition represents the best estimate of fair value. Classification between Level 2 and Level 3 is based on whether the financial statements of the investee are recent and published or not. These instruments are fair valued using third-party information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93 (d).

FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

COMPARISON OF CARRYING AND FAIR VALUES FOR FINANCIAL ASSETS AND LIABILITIES NOT HELD AT FAIR VALUE

The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Group’s financial instruments not measured at fair value. Other institutions may use different methods

and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

FINANCIAL ASSETS AND LIABILITIES CONCENTRATED IN LEBANON

These assets consist of balances with the Central Bank of Lebanon and Lebanese banks, Lebanese government securities, loans and advances to customers and related parties and customers’ deposits. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied

volatilities, and credit spreads. Due to the situation described in Note 1 and the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, Management is unable to produce faithful estimation of the fair value of these financial assets and liabilities. Accordingly, the table below does not include fair value disclosures for these assets and liabilities.

FAIR VALUE MEASUREMENT HIERARCHY OF THE FINANCIAL ASSETS AND LIABILITIES FOR WHICH FAIR VALUE IS DISCLOSED

	Carrying Value	Fair Value			
	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
31 December 2020					
FINANCIAL ASSETS					
Cash and balances with central banks	2,599,605	61,579	2,538,026	-	2,599,605
Due from banks and financial institutions	1,764,905	-	1,764,905	-	1,764,905
Loans to banks and financial institutions and reverse repurchase agreements	259,789	-	259,789	-	259,789
Net loans & advances to customers	5,338,104	-	-	5,302,685	5,302,685
Corporate and SME	4,114,715	-	-	4,087,332	4,087,332
Retail and Personal Banking	1,223,389	-	-	1,215,353	1,215,353
Net loans & advances to related parties	67,638	-	-	67,638	67,638
Retail and Personal Banking	67,638	-	-	67,638	67,638
Financial assets classified at amortised cost	464,144	452,834	19,939	-	472,773
Other sovereign	286,530	274,302	19,939	-	294,241
Private sector and other securities	177,614	178,532	-	-	178,532
	10,494,185	514,413	4,582,659	5,370,323	10,467,395
FINANCIAL LIABILITIES					
Due to central banks	618,736	-	618,736	-	618,736
Due to banks and financial institutions	460,141	-	460,141	-	460,141
Due to banks under repurchase agreements	143,888	-	143,888	-	143,888
Customers’ deposits	9,154,613	-	9,157,078	-	9,157,078
Deposits from related parties	95,688	-	95,696	-	95,696
Debt issued and other borrowed funds	548,560	285,495	114,702	-	400,197
	11,021,626	285,495	10,590,241	-	10,875,736

31 December 2019	Carrying Value	Fair Value			
	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS					
Cash and balances with central banks	4,419,227	165,378	4,253,864	-	4,419,242
Due from banks and financial institutions	2,153,140	-	2,152,890	-	2,152,890
Loans to banks and financial institutions and reverse repurchase agreements	689,984	-	689,984	-	689,984
Net loans & advances to customers	9,692,435	-	-	9,677,567	9,677,567
<i>Corporate and SME</i>	7,136,188	-	-	7,087,364	7,087,364
<i>Retail and Personal Banking</i>	2,339,670	-	-	2,373,626	2,373,626
<i>Public sector</i>	216,577	-	-	216,577	216,577
Net loans & advances to related parties	2,703	-	-	2,775	2,775
<i>Retail and Personal Banking</i>	2,703	-	-	2,775	2,775
Financial assets classified at amortised cost	1,809,593	584,503	1,258,163	-	1,842,666
<i>Other sovereign</i>	1,622,790	400,742	1,249,890	-	1,650,632
<i>Private sector and other securities</i>	186,803	183,761	8,273	-	192,034
	18,767,082	749,881	8,354,901	9,680,342	18,785,124
FINANCIAL LIABILITIES					
Due to central banks	45,481	-	45,481	-	45,481
Due to banks and financial institutions	905,120	-	905,102	-	905,102
Due to banks under repurchase agreements	42,969	-	42,969	-	42,969
Customers' deposits	16,097,053	-	16,114,456	-	16,114,456
Deposits from related parties	92,662	-	92,655	-	92,655
Debt issued and other borrowed funds	632,364	340,907	197,581	-	538,488
	17,815,649	340,907	17,398,244	-	17,739,151

VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3

Short-term Financial Assets and Liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity.

Deposits with Banks and Loans and Advances to Banks

For the purpose of this disclosure, for financial assets that are short-term in nature or have interest rates that re-price frequently, there is minimal difference between fair value and carrying amount. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality. Where market data or credit information on the underlying borrower is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rate.

Reverse Repurchase and Repurchase Agreements

The fair value of reverse repurchase agreements approximates carrying amount as these balances are generally short-dated and fully collateralised.

Government Bonds, Certificates of Deposit and Other Debt Securities

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

Loans and Advances to Customers

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers that do not fall in this category is estimated using discounted cash flows by applying current rates to new loans with similar remaining maturities and to counterparties with similar credit quality.

Deposits from Banks and Customers

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, is estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities. Where market data is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rate.

Debt Issued and Other Borrowed Funds

Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

49.0. | CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

CREDIT-RELATED COMMITMENTS AND CONTINGENT LIABILITIES

The Group enters into various commitments, guarantees and other contingent liabilities which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses

the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients' default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

	2020		
	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	12,905	320,821	333,726
Other guarantees	11,846	747,109	758,955
	24,751	1,067,930	1,092,681
Commitments			
Documentary credits	-	201,855	201,855
Loan commitments	-	2,126,797	2,126,797
<i>Of which: revocable</i>	-	1,270,945	1,270,945
<i>Of which: irrevocable</i>	-	855,852	855,852
	-	2,328,652	2,328,652

	2019		
	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	77,874	715,024	792,898
Other guarantees	14,018	1,101,480	1,115,498
	91,892	1,816,504	1,908,396
Commitments			
Documentary credits	-	663,645	663,645
Loan commitments	-	3,873,428	3,873,428
<i>Of which: revocable</i>	-	3,237,199	3,237,199
<i>Of which: irrevocable</i>	-	636,229	636,229
	-	4,537,073	4,537,073

GUARANTEES (INCLUDING STANDBY LETTERS OF CREDIT)

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and

- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These mainly include performance and tender guarantees.

DOCUMENTARY CREDITS

Documentary credits commit the Group to make payments to third parties, on production of documents which are usually reimbursed immediately by customers.

LOAN COMMITMENTS

Loan commitments are defined amounts (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

INVESTMENT COMMITMENTS

The Group invested in funds pursuant to the provisions of Decision No. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting

the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LBP 9,865 million as of 31 December 2020 (2019: LBP 12,046 million).

LEGAL CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such claims, many of which are beyond its control. At year-end, the Group had several unresolved legal claims in Lebanon and abroad, mainly those relating to the restrictive measures in place with respect to the withdrawal of funds and transfers abroad and a civil action filed in US federal courts in the US District Court in the Eastern District of New York (EDNY) against eleven Lebanese banks including Bank Audi sal asserting primary and secondary liability claims under the Anti-Terrorism Act (“ATA”).

The extent of the impact of these matters cannot always be predicted but may materially impact the Group’s operations, financial results, condition and prospects. However, once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on advice from legal counsel, and despite the novelty of certain claims and the uncertainties inherent in their unique situation, Management believes that legal claims will not result in any material financial loss to the Group, except as provided for in Note 37.

CAPITAL EXPENDITURE COMMITMENTS

	2020 LBP Million	2019 LBP Million
Capital expenditure commitments	3,541	12,306

COMMITMENTS RESULTING FROM CREDIT FACILITIES RECEIVED

The Group has several commitments and covenants resulting from credit facilities, term loans and subordinated debts with non-resident financial institutions. The Group is in breach with some of the financial covenants which were calculated based on the recorded figures and do not take into consideration the adjustments that may result from the resolution of

the uncertainties in Note 1. Due to the high level of uncertainties, the lack of observable reliable indicators and the high gap in currency rates, the Group is unable to estimate in a reasonable manner the impact of these matters on its covenant calculation.

OTHER COMMITMENTS AND CONTINGENCIES

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank’s books in Lebanon for the years 2015 to 2017 (inclusive) are currently under review by the tax authorities. The outcome of this review cannot be determined yet. The Bank’s books in Lebanon remain subject to the review of the tax authorities for the years 2018 to

2020 and the review of the National Social Security Fund (NSSF) for the period from 30 September 2011 to 31 December 2020. In addition, the subsidiaries’ books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

50.0. | ASSETS UNDER MANAGEMENT

Assets under management include client assets managed or deposited with the Group. For the most part, the clients decide how these assets are to be invested.

	2020 LBP Million	2019 LBP Million
Assets under management	11,464,773	13,169,267
Fiduciary assets	1,728,409	3,428,141
	13,193,182	16,597,408

51.0. | RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls

both. The definition includes subsidiaries, associates, Key Management Personnel and their close family members, as well as entities controlled or jointly controlled by them.

SUBSIDIARIES

Transactions between the Bank and its subsidiaries meet the definition of related-party transactions. However, where these are eliminated on

consolidation, they are not disclosed in the Group’s financial statements.

ASSOCIATES AND OTHER ENTITIES

The Group provides banking services to its associates and to entities under common directorships. As such, loans, overdrafts, interest and non-interest bearing deposits, and current accounts are provided to these entities, as well as other services. These transactions are conducted

on the same terms as third-party transactions. Summarised financial information for the Group’s associates is set out in Note 25 to these financial statements.

Amounts included in the Group’s financial statements are as follows:

	2020 LBP Million	2019 LBP Million
Loans and advances	108,200	140,489
Of which: granted to Key Management Personnel	21,234	23,232
Of which: cash collateral received against loans	74,969	87,944
Indirect facilities	1,720	1,853
Deposits	163,019	276,310
Interest income on loans	1,747	6,083
Interest expense on deposits	1,242	15,852

KEY MANAGEMENT PERSONNEL

Key Management Personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group and its employees. The Group

considers the members of the Board of Directors (and it sub-committees) and Executive Committee, and persons and entities connected to them to be Key Management Personnel.

	2020 LBP Million	2019 LBP Million
Short-term benefits	16,898	31,127
Post-employment benefits	235	846

Short-term benefits comprise of salaries, bonuses, attendance fees and other benefits.

Provision for end of service benefits of Key Management Personnel amounted to LBP 1,531 million as of 31 December 2020 (2019: LBP 2,819 million).

During 2020, foreign currency international liquidity provided by related parties of USD 37 million was converted into local foreign currency deposits after the application of the "multiplier factor" and resulted in commission of LBP 28,720 million.

52.0. | RISK MANAGEMENT

The Group is exposed to various risk types, some of which are:

- Credit risk: the risk of default or deterioration in the ability of a borrower to repay a loan.
- Market risk: the risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.
- Liquidity risk: the risk that the Group cannot meet its financial obligations when they come due in a timely manner and at a reasonable cost.

- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- Other risks faced by the Group include concentration risk, reputation risk, legal risk, political risk and business/strategic risk.

Risks are managed through a process of ongoing identification, measurement, monitoring, mitigation and control, and reporting to relevant stakeholders. The Group ensures that risk and rewards are properly balanced and in line with the risk appetite framework, which is approved by the Board of Directors.

BOARD OF DIRECTORS

The Board of Directors (the Board) is ultimately responsible for setting the level of acceptable risks to which the Group is exposed, and as such, approves the risk appetite and policies of the Group. The Board monitors the risk profile in comparison to the risk appetite on a regular basis and

follow-up on existing and emerging risks. A number of Management committees and departments are also responsible for various levels of risk management, as set out below.

BOARD GROUP RISK COMMITTEE

The role of the Board’s Group Risk Committee (BGRC) is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the group risk policies and risk appetite,

monitor the Group’s risk profile, review stress test scenarios and results, and provide access for the Group Chief Risk Officer (CRO) to the Board. The BGRC meets at least every quarter in the presence of the Group CRO.

EXECUTIVE COMMITTEE

The mandate of the Executive Committee is to support the Board in the implementation of its strategy, to support the Group CEO in the day-to-day management of the Group, and to develop and implement

business policies and issue guidance for the Group within the strategy approved by the Board. The Executive Committee is involved in reviewing and submitting to the Board the risk policies and risk appetite.

ASSET LIABILITY COMMITTEE

The Asset Liability Committee (ALCO) is a Management committee responsible in part for managing market and liquidity risks, as well as reviewing funding needs and contingency exposures. It is the

responsibility of this committee to set up strategies for managing market risk and liquidity risk and ensuring that Treasury implements those strategies in line with the risk policy and limits approved by the Board.

INTERNAL AUDIT

Risk management processes are independently audited by the Internal Audit Department at least annually. This includes the examination of both the adequacy and effectiveness of risk control procedures. Internal Audit

discusses the results of its assessments with Management and reports its findings and recommendations to the Audit Committee of the Board.

RISK MANAGEMENT

Risk Management is a function independent from business lines and headed by the CRO. The function has the responsibility to ensure that risks are properly identified, measured, monitored, controlled, and reported to heads of business lines, Senior Management, ALCO, the Board Group Risk Committee and the Board. In addition, the function works closely with Senior Management to ensure that proper controls

and mitigants are in place. The Risk function at the Group level has the responsibility of drafting risk policies and principles for adoption at the entity level. In addition, it is in charge of cascading risk appetite and limits to entities and business lines, as well as monitoring and aggregating the risk profile across the Group.

RISK APPETITE

The Risk appetite reflects the level and type of risk that the Group is willing to accept, taking into account the Group’s strategy operating environment and regulatory constraints.

Risk appetite is formalised in a document which is reviewed by the Executive Committee and the Board Group Risk Committee, and approved by the Board. This document comprises qualitative and quantitative statements of risk appetite and includes key risk indicators covering various risk types.

Information independently compiled from business lines and risk-taking units is examined and aggregated in order to identify and measure the risk profile. The results are reported and presented on a regular basis to the Management and the Board.

53.0. | CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its obligors or counterparties fail to meet their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including bank placements, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities

(including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. In the case of credit derivatives, the Group is also exposed to the risk of default of the derivative’s counterparty.

CREDIT RISK MANAGEMENT

Credit risk appetite and limits are set at the Group level by the Board and are cascaded to entities. The Group manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and for geographical and sectoral concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Credit Review and Credit Risk functions in each entity, which are independent from business lines. These functions ensure a proper coverage of credit risk though the implementation of various processes, including but not limited to: i) providing independent opinions on credit files, ii) reviewing and approving obligors risk ratings assignments, iii) conducting portfolio reviews, iv) ensuring compliance with the Group’s credit policy and limits, and v) aggregating data and reporting the credit risk profile to relevant stakeholders.

The Group has established various credit monitoring processes for the early detections of changes in borrowers’ and the design of effective remedial measures. These processes include regular loan portfolio reviews, IFRS 9 Impairment Committee meetings, as well as individual review process at the level of each borrower. The latter process is mainly applicable for non-retail obligors.

The Group has also established an approval limit structure for granting and renewing credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to their own assigned limits. Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

Since October 2019 events, the challenging economic situation in Lebanon has been exerting significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers’ creditworthiness across various segment types. In order to address the challenging operating conditions, the Group has implemented a series of remedial actions that included: i) risk deleveraging by reducing its loan exposure, ii) increasing collection capacity across various business lines, iii) increasing specific and collective provision coverages, and iv) setting up an independent, centralised and specialised remedial function to proactively manage borrowers’ showing weak or deteriorating credit profiles.

EXPECTED CREDIT LOSSES

GOVERNANCE AND OVERSIGHT OF EXPECTED CREDIT LOSSES

The IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the implementation of the Excepted Credit Loss (ECL) framework. This is being done by: i) approving the IFRS 9 Impairment Policy; ii) reviewing key assumptions and estimations that are part of the ECL framework; iii) approving the forward-looking economic scenarios; iv) approving staging classifications on a name-by-name basis for material exposures; and v) reviewing ECL results.

The Group reviews its IFRS 9 Impairment Policy on annual basis at least, and amends it, if and when necessary to reflect any change in the estimation methodology, embedded assumptions or regulatory requirements.

Key judgments inherent in this policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.

ECL is estimated using a model that takes into account the borrower's exposure, internal obligor risk rating, facility characteristics, and collateral information among other. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors

affecting the accuracy of their outputs. To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models are validated by a qualified independent party to the model development unit, before first use and at regular intervals thereafter.

Each model is designated an owner who is responsible for: i) monitoring the performance of the model, which includes comparing estimated ECL versus actual realised losses; and ii) proposing post-model development adjustments to enhance model's accuracy or to account for situations where known or expected risk factors and information have not been considered in the modelling process. Models used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data, reconciliation with finance data, and documentation of the calculation steps.

ECL estimation takes into account a range of future economic scenarios, which are set by economists within the Group's Research Department using independent models and expert judgment. Forward looking economic scenarios, with their corresponding probabilities of occurrence, are updated annually or more frequently in the event of a significant change in the prevailing economic conditions.

three consecutive payments under the new repayment schedule have been made; iii) the borrower has no past dues under any obligation to the Group; and iv) all the terms and conditions agreed to as part of the restructuring agreement have been met.

In response to the COVID-19 global pandemic, governments and regulators around the world have introduced a number of support measures for both retail and non-retail customers under market-wide programs. In Lebanon, the Central Bank of Lebanon issued Intermediary Circular no. 567 dated August 26, 2020, by which it required banks operating in Lebanon to keep the regulatory classification unchanged for obligors that were negatively impacted by this pandemic and not to consider their past-dues, when existing, as evidence of SICR. However, under exceptional circumstances and in case an obligor ceases to be operationd on a going concern basis, banks should immediately downgrade the borrower's classification to Stage 3. In Turkey the regulatory authority moved the Stage 2 and Stage 3 classifications backstop levels from 30 days and 90 days to 90 days and 180 days respectively. This relief measure, which was initially set to expire at end of 2020, was extended till end of June 2021 in view of the prolonged nature of the pandemic.

DEFINITION OF DEFAULT AND CURE

The Group considers a financial asset to be in default when:
- The borrower is unlikely to pay his credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).
- The borrower is more than 90 days past due on any material credit obligation to the Group.

As part of the qualitative assessment process of default identification, the Group carefully considers other criteria than the ones listed above in order to determine if an exposure should be classified in Stage 3 for ECL calculation purpose or if a Stage 2 classification is deemed more appropriate.

It is the Group's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case-by-case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed; ii)

THE GROUP'S INTERNAL RATING AND PD ESTIMATION PROCESS

Central Banks, Sovereigns and Financial Institutions

For central banks, sovereigns and financial institutions' exposures, ratings from recognised external rating agencies are used and mapped to their corresponding PDs as reported by these agencies. These ratings with their corresponding PDs are monitored and updated on a regular basis. With respect to exposures to the Central Bank of Lebanon and Lebanese sovereign, Intermediate Circular 567 modified the regulatory ECLs levels, previously set in its Intermediate Circular 543 issued on 3 February 2020. Regulatory ECL on exposures to Lebanese sovereign bonds in foreign currency was increased from 9.45% to 45%, while regulatory ECLs on exposures to Lebanese sovereign bonds in local currency, exposures to the Central Bank of Lebanon in foreign currency and exposures to the Central Bank of Lebanon in local currency remained unchanged

Non-retail Loans

The Risk function is responsible for the development of internal rating models, and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Group uses an internal Obligor Risk Rating (ORR) scale comprised of 19 performing grades and 3 non-performing grades. These grades, which are generated by internal rating models are calibrated to PDs using historical default observations that are specific to each geography and business line segment. If historical default observations are not sufficient for a reliable PD estimation, then a low-default portfolio approach is adopted. The mapping of ratings to PDs, which is done initially on a through-the-cycle basis, is then adjusted to a point-in-time basis. PDs are also adjusted to incorporate forward-looking information in line with the IFRS 9 standard.

Internal rating models for the Group's key lending portfolios (including Corporate and SME) take into account both qualitative and quantitative criteria to generate ratings such as:

Retail Loans and Private Banking

Retail lending comprises mainly of personal loans, car loans, credit cards and housing loans. The Group normally relies on application scorecards to score retail applicants and for either, the automation of decisions according to a certain cut-off score or as an additional input to support the approval or reject decision by specialised credit officers. For the estimation of expected losses for retail products, the Group uses the loss approach by product based on the net flow of exposures from one days-past-due bucket to another (factoring in any COVID-19 related regulatory forbearance measure where applicable). This estimation is adjusted by a forward-looking component in line with the IFRS 9 standard.

(0%, 1.89% and 0% respectively). This circular however changed the requirement for the recognition of ECL in the banks' financial statements from a "Maximum" level to a "Minimum" one. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the government's plans with respect to, among other, the exposures to the Central Bank of Lebanon, the Group was unable to estimate in a reasonable manner ECL on this exposure and accordingly, as applicable, the loss rate mentioned in Intermediate Circular 567 was adopted. To note that the Group disposed of the majority of its holding of Lebanese sovereign bonds in foreign currency during 2020 and allocated full provision coverage on the implied loss for the remaining balance based on prevailing market values.

- Historical and projected financial information related to the customer. These include debt service coverage, operations, liquidity, capital structure and any other relevant financial ratios.
- Account behaviour, repayment history (factoring in any COVID-19 related regulatory forbearance measure where applicable) and other non-financial information such as Management quality, company standing and industry risk.
- Any publicly available information from external parties. This includes external credit ratings issued by recognised rating agencies, independent analyst reports and other market disclosures.
- Macro-economic information such as GDP growth which is relevant to customers' country of operations.
- Other supporting information on the obligor's willingness and capacity to repay.

Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Review and Credit Risk functions, which are independent from business lines. Credit Review and Credit Risk functions are responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

Private Banking credit exposures are mainly related to margin lending activities where the Group typically holds high liquid and diversified securities as collaterals with very conservative loan to value thresholds. This lending discipline, together with very tight and automated monitoring standards, ensure the portfolio remains of very high quality. The ECLs for these exposures is dependent on collateral types and coverage level, among other.

LOSS GIVEN DEFAULT (LGD)

LGD is the magnitude of the likely loss in the event of a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties that were fully settled, as well as on the potential future recoveries on defaulted counterparties that still have

outstanding balances. LGD estimation is dependent on the counterparty and collateral type, as well as recovery costs. For portfolios with limited historical data, external benchmark information is used to supplement the internally available data.

EXPOSURE AT DEFAULT (EAD)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is its gross carrying amount at the time of

default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

SIGNIFICANT INCREASE IN CREDIT RISK

The Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition, using reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information based on the Group’s historical experience and expert credit assessment including forward-looking information. The Group assessment of significant increase in credit risk is being performed on a monthly basis based on the following:

Non-retail Portfolio

Migration of obligor risk rating by a certain number of notches from origination to reporting date as a key indicator of the change in the risk of default at origination date with the risk of default at reporting date. The Group also considers in its assessment of significant increase in credit risk various qualitative factors including significant adverse changes in the business condition, restructuring due to credit quality weakness during the past 12 months, and classification of an exposure under the “Follow-up and Regularisation” supervisory classification.

Retail Portfolio

The Group considers specific conditions that might be indicative of a significant increase in credit risk such as a restructuring event. The Group has also identified thresholds using historical default rates and historical payment behaviour to determine significant increase in credit risk.

Backstop

As a backstop, the financial instrument is considered to have experienced a significant increase in credit risk if the obligor is more than 30 days past-due on his contractual payment. As noted in section “Definition of Default and Cure” and in response to the COVID-19 global pandemic, governments and regulators around the world have introduced a number of support measures for both retail and non-retail borrowers under market-wide programs. Specifically in Turkey, the regulatory authority moved the SICR backstop level from 30 days to 90 days. This relief measure, which was initially set to expire at end of 2020, was extended till end of June 2021 in view of the prolonged nature of the pandemic. Downgrade from Stage 2 to Stage 3 is based on whether financial assets are credit impaired at the reporting date.

EXPECTED LIFE

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the

contractual notice period, but instead, calculates ECL over a period that reflects the Group’s expectations with regards to the customer’s behaviour, its likelihood of default, and future risk mitigation actions, which could include reducing or cancelling the facilities.

FORWARD-LOOKING INFORMATION

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition, and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario and two less likely scenarios, one upside and one downside, each assigned a specific probability of occurrence. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. These scenarios, including the weights attributable to them, are prepared by economists within the Research Department. They are determined using a combination of expert judgment and model output. The Group reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

The Group has identified the real GDP growth, among others, as the key driver of ECL for several countries where it operates. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The ECL estimates have been assessed for sensitivity to changes in forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. For the Group’s various countries of operations, excluding Lebanon, the impact on ECL is not material.

In Lebanon, given the prevailing high uncertainties and challenges, which were further exacerbated by the COVID-19 pandemic as disclosed in Note 1, ECLs estimation remains subject to high volatility (including from changes to macroeconomic variable forecasts) especially in the event of a prolonged crisis and continued deterioration in the economic conditions. It is not practical at this stage to determine and provide sensitivity analysis that is reasonably possible before the full resolution of these prevailing high uncertainties.

MODIFIED AND FORBORNE LOANS

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in The Summary of Significant Accounting Policies above.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as “forbearance activities”) to maximise collection opportunities and minimise the risk of default. Under the Group’s

forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on his debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk.

The table below includes Stage 1 and 2 assets that were modified and, therefore, treated as forborne during the year.

	2020 LBP Million	2019 LBP Million
Amortised costs of financial assets modified during the period	490,189	573,581

FINANCIAL ASSETS AND ECLS BY STAGE

The tables below present an analysis of financial assets at amortised cost by gross exposure and impairment allowance by stage allocation as at 31 December 2020 and 31 December 2019. The Group does not hold any purchased or originated credit-impaired assets as at year-end.

	Gross Exposure				Impairment Allowance				Net Exposure LBP Million
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	
31 December 2020									
Central banks	2,538,350	16,694,925	-	19,233,275	324	218,991	-	219,315	19,013,960
Due from banks and financial institutions	2,131,050	36,825	522	2,168,397	255	-	183	438	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	259,790	8,056	-	267,846	-	3,600	-	3,600	264,246
Loans and advances to customers at amortised cost	6,927,112	2,123,341	1,655,495	10,705,948	314,840	334,034	914,722	1,563,596	9,142,352
<i>Corporate and SME</i>	4,282,288	1,925,970	1,233,614	7,441,872	224,128	295,522	628,590	1,148,240	6,293,632
<i>Retail and Personal Banking</i>	2,644,824	191,804	358,984	3,195,612	90,712	38,450	257,527	386,689	2,808,923
<i>Public sector</i>	-	5,567	62,897	68,464	-	62	28,605	28,667	39,797
Loans and advances to related parties at amortised cost	108,363	-	-	108,363	163	-	-	163	108,200
Financial assets at amortised cost	465,264	4,052,447	3,418,121	7,935,832	1,121	73,121	74,097	148,339	7,787,493
Financial guarantees and other commitments	2,072,076	82,758	13,446	2,168,280	13,464	7,204	3,185	23,853	2,144,427
Total	14,502,005	22,998,352	5,087,584	42,587,941	330,167	636,950	992,187	1,959,304	40,628,637

	Gross Exposure				Impairment Allowance				Net Exposure LBP Million
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	
31 December 2019									
Central banks	4,256,133	18,584,465	-	22,840,598	2,283	174,282	-	176,565	22,664,033
Due from banks and financial institutions	2,153,548	24,779	1,166	2,179,493	746	13	828	1,587	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	690,011	13,002	-	703,013	27	2,529	-	2,556	700,457
Loans and advances to customers at amortised cost	12,103,964	3,018,288	2,304,771	17,427,023	99,757	455,034	1,410,561	1,965,352	15,461,671
<i>Corporate and SME</i>	7,129,670	2,635,760	1,816,118	11,581,548	84,763	297,001	1,055,332	1,437,096	10,144,452
<i>Retail and Personal Banking</i>	4,772,667	355,252	417,153	5,545,072	13,643	156,332	350,644	520,619	5,024,453
<i>Public sector</i>	201,627	27,276	71,500	300,403	1,351	1,701	4,585	7,637	292,766
Loans and advances to related parties at amortised cost	140,556	-	-	140,556	67	-	-	67	140,489
Financial assets at amortised cost	1,810,987	6,359,667	5,310,281	13,480,935	1,393	105,072	1,055,526	1,161,991	12,318,944
Financial guarantees and other commitments	3,662,133	177,008	26,708	3,865,849	21,240	6,520	12,314	40,074	3,825,775
Total	24,817,332	28,177,209	7,642,926	60,637,467	125,513	743,450	2,479,229	3,348,192	57,289,275

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of loans and advances at amortised cost:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2020	99,757	455,034	1,410,561	1,965,352
Net re-measurements and reallocations	237,157	(84,296)	321,066	473,927
Recoveries	-	-	(196,895)	(196,895)
Related to discontinued operation	5,860	17,277	22,931	46,068
Write-offs	-	-	(437,128)	(437,128)
Other movements	(2,462)	29,793	46,722	74,053
Transfer to assets held for sale	(22,874)	(48,703)	(192,787)	(264,364)
Foreign exchange difference	(2,598)	(35,071)	(59,748)	(97,417)
Balance at 31 December 2020	314,840	334,034	914,722	1,563,596

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2019	80,892	385,396	736,317	1,202,605
Net re-measurements and reallocations	25,330	116,247	788,776	930,353
Recoveries	-	-	(107,093)	(107,093)
Write-offs	-	-	(67,491)	(67,491)
Other movements	-	-	48,377	48,377
Related to discontinued operations	1,926	(18,513)	40,438	23,851
Foreign exchange difference	(8,391)	(28,096)	(28,763)	(65,250)
Balance at 31 December 2019	99,757	455,034	1,410,561	1,965,352

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity, was LBP 1,377,944 million at 31 December 2020 (2019: LBP 863,842 million).

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of financial assets at amortised cost:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2020	1,393	105,072	1,055,526	1,161,991
Net re-measurements and reallocations	13	(28,940)	(25,350)	(54,277)
Related to discontinued operations	-	(2,949)	-	(2,949)
Other movements	-	-	36,224	36,224
Related to financial assets sold	-	-	(984,785)	(984,785)
Transfer to assets held for sale	(3)	(62)	(5,825)	(5,890)
Foreign exchange difference	(282)	-	(1,693)	(1,975)
Balance at 31 December 2020	1,121	73,121	74,097	148,339

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2019	44,261	-	-	44,261
Net re-measurements and reallocations	(40,202)	103,495	892,133	955,426
Other movements	-	-	148,535	148,535
Related to discontinued operations	-	1,561	12,951	14,512
Foreign exchange difference	(2,666)	16	1,907	(743)
Balance at 31 December 2019	1,393	105,072	1,055,526	1,161,991

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of balances with central banks:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2020	2,283	174,282	-	176,565
Net re-measurements and reallocations	105	44,709	-	44,814
Related to discontinued operations	(14)	-	-	(14)
Transfer to assets held for sale	(1,992)	-	-	(1,992)
Foreign exchange difference	(58)	-	-	(58)
Balance at 31 December 2020	324	218,991	-	219,315

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2019	47,269	-	-	47,269
Net re-measurements and reallocations	(45,503)	130,582	-	85,079
Other movements	(1,077)	43,700	-	42,623
Related to discontinued operations	1,443	-	-	1,443
Foreign exchange difference	151	-	-	151
Balance at 31 December 2019	2,283	174,282	-	176,565

Net re-measurements and reallocations include re-measurements as a result of changes in the size of portfolios, reclassifications between stages and risk parameter changes.

ANALYSIS OF RISK CONCENTRATIONS

GEOGRAPHICAL LOCATION ANALYSIS

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location. The distribution of financial assets by geographic region as of 31 December is as follows:

	2020									
	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the World LBP Million	Total LBP Million
Balances with central banks	16,475,934	942,343	9,092	1,586,591	-	-	-	-	-	19,013,960
Due from banks and financial institutions	36,825	72,651	104,921	1,483,781	469,578	170	33	-	-	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	4,456	258,518	-	1,272	-	-	-	-	-	264,246
Derivative financial instruments	3,493	32,374	343	182,453	-	-	151	6	-	218,820
Financial assets at fair value through profit or loss	834	4,295	-	318,873	-	12,268	1,409	-	-	337,679
Loans and advances to customers at amortised cost	3,857,665	3,751,432	725,173	298,159	8,220	111,269	295,897	45,590	48,947	9,142,352
Loans and advances to related parties at amortised cost	40,348	-	67,144	708	-	-	-	-	-	108,200
Debtors by acceptances	6,681	2,003	6,486	643	-	-	2,079	-	-	17,892
Financial assets at amortised cost	7,323,350	216,252	85,750	61,589	65,150	27,636	-	-	7,766	7,787,493
Financial assets at fair value through other comprehensive income	-	1,060,504	-	23,699	165,751	154,855	47,850	-	-	1,452,659
Other assets	1,477,965	125,521	2,382	20,798	-	-	-	-	-	1,626,666
	29,227,551	6,465,893	1,001,291	3,978,566	708,699	306,198	347,419	45,596	56,713	42,137,926

	2019									
	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the World LBP Million	Total LBP Million
Balances with central banks	18,410,184	867,610	2,483,608	902,631	-	-	-	-	-	22,664,033
Due from banks and financial institutions	24,766	141,724	343,072	1,206,197	458,165	3,972	10	-	-	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	10,473	675,801	14,183	-	-	-	-	-	-	700,457
Derivative financial instruments	9,073	22,155	1,372	221,164	37,160	-	-	-	-	290,924
Financial assets at fair value through profit or loss	758	1,038	-	312,210	-	-	-	-	-	314,006
Loans and advances to customers at amortised cost	5,769,236	4,106,353	4,378,633	342,421	261,053	121,046	383,494	49,130	50,305	15,461,671
Loans and advances to related parties at amortised cost	137,786	-	1,753	933	17	-	-	-	-	140,489
Debtors by acceptances	68,410	100,275	476,401	764	-	-	11,729	-	-	657,579
Financial assets at amortised cost	10,509,351	343,135	1,313,365	49,639	60,960	15,108	-	-	27,386	12,318,944
Financial assets at fair value through other comprehensive income	-	272,346	798,586	-	-	7,781	7,399	-	-	1,086,112
Other assets	1,250,316	137,921	21,093	20,972	-	-	-	-	-	1,430,302
	36,190,353	6,668,358	9,832,066	3,056,931	817,355	147,907	402,632	49,130	77,691	57,242,423

INDUSTRIAL ANALYSIS

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by industry sector. The distribution of financial assets by industry sector as of 31 December is as follows:

	2020									
	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million	Retail and Wholesale LBP Million	Construction and Materials LBP Million	Manufacturing LBP Million	Energy and Petroleum LBP Million	Services and Utilities LBP Million	Agriculture LBP Million	Total LBP Million
Balances with central banks	-	19,013,960	-	-	-	-	-	-	-	19,013,960
Due from banks and financial institutions	2,167,959	-	-	-	-	-	-	-	-	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	264,246	-	-	-	-	-	-	-	-	264,246
Derivative financial instruments	191,186	-	24,512	3,122	-	-	-	-	-	218,820
Financial assets at fair value through profit or loss	332,550	5,129	-	-	-	-	-	-	-	337,679
Loans and advances to customers at amortised cost	575,752	66,133	2,884,591	1,007,714	1,265,355	955,455	400,304	1,846,109	140,939	9,142,352
Loans and advances to related parties at amortised cost	67,564	-	27,577	-	-	-	-	13,059	-	108,200
Debtors by acceptances	2,231	-	-	3,231	1,021	7,746	-	3,453	210	17,892
Financial assets at amortised cost	116,734	7,609,879	23,655	-	-	32,634	-	4,591	-	7,787,493
Financial assets at fair value through other comprehensive income	293,819	1,158,840	-	-	-	-	-	-	-	1,452,659
Other assets	254,602	1,334,603	37,461	-	-	-	-	-	-	1,626,666
	4,266,643	29,188,544	2,997,796	1,014,067	1,266,376	995,835	400,304	1,867,212	141,149	42,137,926

	2019									
	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million	Retail and Wholesale LBP Million	Construction and Materials LBP Million	Manufacturing LBP Million	Energy and Petroleum LBP Million	Services and Utilities LBP Million	Agriculture LBP Million	Total LBP Million
Balances with central banks	-	22,664,033	-	-	-	-	-	-	-	22,664,033
Due from banks and financial institutions	2,177,906	-	-	-	-	-	-	-	-	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	700,457	-	-	-	-	-	-	-	-	700,457
Derivative financial instruments	270,770	-	10,514	1,837	708	3,188	-	3,559	348	290,924
Financial assets at fair value through profit or loss	312,205	1,796	-	-	5	-	-	-	-	314,006
Loans and advances to customers at amortised cost	1,091,711	285,393	5,095,929	1,575,953	1,934,348	2,079,246	772,427	2,547,756	78,908	15,461,671
Loans and advances to related parties at amortised cost	80,089	-	46,494	-	1	-	-	13,905	-	140,489
Debtors by acceptances	5,130	-	242	46,117	1,125	148,613	431,922	7,214	17,216	657,579
Financial assets at amortised cost	179,290	12,131,775	-	-	-	7,512	-	-	367	12,318,944
Financial assets at fair value through other comprehensive income	15,180	1,070,932	-	-	-	-	-	-	-	1,086,112
Other assets	249,300	1,167,660	13,342	-	-	-	-	-	-	1,430,302
	5,082,038	37,321,589	5,166,521	1,623,907	1,936,187	2,238,559	1,204,349	2,572,434	96,839	57,242,423

CREDIT QUALITY

The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

- (i) External ratings from approved credit rating agencies for fixed income instruments and financial institutions exposures.
- (ii) Internal rating models that take into account both financial and non-financial information such as Management quality, operating environment and company standing. The Group has designed specific internal rating models for Corporate, SME models, Project Finance and Individual borrowers.
- (iii) Empirical and expert-based scorecards that assess the creditworthiness of retail borrowers in an objective manner.
- (iv) Supervisory classifications, comprising six main categories: (a) Regular includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These borrowers display regular and timely payment of their dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required. (b) Follow-up represents a

lack of updated documentation related to the borrower’s activity, an inconsistency between facilities’ type and related conditions. (c) Follow-up and regularisation includes creditworthy borrowers requiring close monitoring without being impaired. These borrowers usually demonstrate signs of weaknesses (such as insufficient or inadequate cash flows, high leverage ratio, excess utilisation, multiple loan rescheduling since initiation), or operating under deteriorating economic or geographic conditions. (d) Substandard loans include borrowers showing clear signs of inability to repay their facilities on due time, as well as financial difficulties (e.g. hard core accounts, weakened cash generation capacity). (e) Doubtful loans where full repayment is questioned even after liquidation of collateral, when applicable. It also includes loans with past-dues for over 6 months and debtors who are unable to repay their restructured facilities. Finally, (f) Bad loans which relate to obligors with no or little expected inflows from business or assets liquidation. This category also includes borrowers with significant delays and deemed insolvent.

SOVEREIGN AND BANKS AND FINANCIAL INSTITUTIONS

External Rating Grade	Credit Quality Description
AA+, AA, AA-	High
A+, A, A-	High
BBB+, BBB, BBB-	Standard
BB+, BB, BB-	Standard
B+, B, B-	Weak
CCC+, CCC, CCC-	Weak
CC, C, D	Credit-impaired

NON-RETAIL LOANS

Internal Rating Grade ^(*)	Credit Quality Description
Performing	
1	High
2	High
3	High
4	Standard
5	Standard
6	Standard
7	Weak
Non-performing	
8	Credit-impaired
9	Credit-impaired
10	Credit-impaired

^(*) The internal rating grade is based on the obligor risk rating (which is mapped to PD) and therefore does not incorporate facility risk characteristics and structure such as the existence of credit risk mitigants (impacting LGD). For this reason, an obligor risk rating can be mapped to different supervisory ratings depending on the expected loss level.

RETAIL

Internal Rating Grade ^(*)	Credit Quality Description
Performing	
B0 (0 days past due)	High
B1 (1 to 30 days past due)	Standard
B2 (31 to 60 days past due)	Standard
B3 (61 to 90 days past due)	Weak
Non-performing	
B4 – B6 (91 to 180 days past due)	Credit-impaired
B7 – B12 (181 days to 360 days past due)	Credit-impaired
B13 (more than 360 days past due)	Credit-impaired

- The credit quality descriptions can be summarised as follows:
- *High*: there is a very high likelihood that the asset will be recovered in full. The counterparty exhibits high ability and willingness to meets its full obligation on due time.
 - *Standard*: there is a high likelihood that the asset will be recovered in full. At the lower end of this category however, there are obligors showing some signs of reduced financial capacity, as well as retail borrowers in their early delinquency status.
 - *Weak*: there is a concern on the obligor’s ability to make payments when due. However, this has not materialized yet in an event of default. Under this category, the borrower, which is now under a close monitoring and follow-up process, continues to repay his dues, albeit with some and/or recurring delays and increased risk of loss.

The table below shows the credit quality of the Group’s loans and advances to customers based on credit quality segment and stage classification.

	2020				2019			
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
Loans and advances to customers at amortised cost	6,927,112	2,123,341	1,655,495	10,705,948	12,103,964	3,018,288	2,304,771	17,427,023
Corporate and SMEs	4,282,288	1,925,970	1,233,614	7,441,872	7,129,670	2,635,760	1,816,118	11,581,548
Performing								
High	315,200	3,286	-	318,486	401,336	28,340	-	429,676
Standard	3,325,645	373,353	-	3,698,998	6,633,280	723,775	-	7,357,055
Weak	641,443	1,549,331	-	2,190,774	95,054	1,883,645	-	1,978,699
Non-performing								
Credit-impaired	-	-	1,233,614	1,233,614	-	-	1,816,118	1,816,118
Retail and Private Banking	2,644,824	191,804	358,984	3,195,612	4,772,667	355,252	417,153	5,545,072
Performing								
High	924,956	-	-	924,956	4,088,095	-	-	4,088,095
Standard	1,555,273	127,395	-	1,682,668	681,721	306,362	-	988,083
Weak	164,595	64,409	-	229,004	2,851	48,890	-	51,741
Non-performing								
Credit-impaired	-	-	358,984	358,984	-	-	417,153	417,153
Public sector	-	5,567	62,897	68,464	201,627	27,276	71,500	300,403
Performing								
Standard	-	-	-	-	201,627	-	-	201,627
Weak	-	5,567	-	5,567	-	27,276	-	27,276
Non-performing								
Credit-impaired	-	-	62,897	62,897	-	-	71,500	71,500
Loans and advances to related parties at amortised cost	108,363	-	-	108,363	140,556	-	-	140,556
Performing								
High	108,363	-	-	108,363	140,556	-	-	140,556
Off-balance sheet loan commitments and financial guarantee contracts	2,072,076	82,758	13,446	2,168,280	3,662,133	177,008	26,708	3,865,849
Performing								
High	151,372	3,354	-	154,726	965,873	1,390	-	967,263
Standard	1,840,991	15,631	-	1,856,622	2,670,707	83,804	-	2,754,511
Weak	79,713	63,773	-	143,486	25,553	91,814	-	117,367
Non-performing								
Credit-impaired	-	-	13,446	13,446	-	-	26,708	26,708
Total	9,107,551	2,206,099	1,668,941	12,982,591	15,906,653	3,195,296	2,331,479	21,433,428

The table below shows the credit quality of the Group’s financial instruments and balances due from banks and financial institutions as per external ratings.

	2020											
	Sovereign and Central Banks						Non-sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Below B- LBP Million	Unrated LBP Million	Total LBP Million	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	Grand Total LBP Million
Balances with central banks	1,586,591	-	951,435	-	16,475,934	19,013,960	-	-	-	-	-	19,013,960
Due from banks and financial institutions	-	-	-	-	-	-	600,046	1,264,302	82,138	221,473	2,167,959	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	-	-	82,111	182,135	264,246	264,246
Financial assets at fair value through profit or loss	-	-	4,295	834	-	5,129	34,178	291,248	-	7,124	332,550	337,679
Financial assets at amortised cost	58,148	12,129	216,252	3,344,024	3,979,326	7,609,879	46,414	131,200	-	-	177,614	7,787,493
Financial assets at fair value through other comprehensive income	98,306	-	1,060,534	-	-	1,158,840	259,881	33,938	-	-	293,819	1,452,659
	1,743,045	12,129	2,232,516	3,344,858	20,455,260	27,787,808	940,519	1,720,688	164,249	410,732	3,236,188	31,023,996

	2019											
	Sovereign and Central Banks						Non-sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Below B- LBP Million	Unrated LBP Million	Total LBP Million	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	Grand Total LBP Million
Balances with central banks	902,632	-	3,351,218	-	18,410,183	22,664,033	-	-	-	-	-	22,664,033
Due from banks and financial institutions	-	-	-	-	-	-	430,170	1,253,176	263,627	230,933	2,177,906	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	-	-	675,801	24,656	700,457	700,457
Financial assets at fair value through profit or loss	-	-	1,038	758	-	1,796	-	294,053	-	18,157	312,210	314,006
Financial assets at amortised cost	46,660	7,417	1,568,714	4,254,756	6,254,228	12,131,775	87,377	99,426	-	366	187,169	12,318,944
Financial assets at fair value through other comprehensive income	-	-	1,070,932	-	-	1,070,932	15,180	-	-	-	15,180	1,086,112
	949,292	7,417	5,991,902	4,255,514	24,664,411	35,868,536	532,727	1,646,655	939,428	274,112	3,392,922	39,261,458

MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

	2020								
	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million	Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Risk Transfer LBP Million	Net Credit Exposure LBP Million
Balances with central banks	19,013,960	-	-	-	-	-	-	-	19,013,960
Due from banks and financial institutions	2,167,959	-	-	-	-	-	-	-	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	264,246	-	-	63,640	-	-	-	-	200,606
Derivative financial instruments	218,820	-	-	-	-	-	-	-	218,820
Financial assets at fair value through profit or loss	337,679	-	-	-	-	-	-	-	337,679
Loans and advances to customers at amortised cost	9,142,352	585,488	1,181,883	32,515	3,726,138	145,045	127,274	-	3,344,009
<i>Corporate and SME</i>	6,293,632	297,115	442,399	31,349	2,587,771	107,166	114,823	-	2,713,009
<i>Retail and Personal Banking</i>	2,808,923	288,373	739,484	1,166	1,138,367	37,879	12,451	-	591,203
<i>Public sector</i>	39,797	-	-	-	-	-	-	-	39,797
Loans and advances to related parties at amortised cost	108,200	74,969	-	-	15,485	56	784	-	16,906
Debtors by acceptances	17,892	1,897	-	-	-	-	-	-	15,995
Financial assets at amortised cost	7,787,493	-	-	-	-	-	-	230,443	7,557,050
Financial assets at fair value through other comprehensive income	1,452,659	-	-	-	-	-	-	-	1,452,659
Other assets	1,626,666	-	-	-	-	-	-	-	1,626,666
Contingent liabilities	535,581	64,605	7,297	16,972	8,555	239	14,175	-	423,738
<i>Letters of credit</i>	201,855	11,160	-	-	2,576	-	-	-	188,119
<i>Financial guarantee given to banks and financial institutions</i>	12,905	-	-	-	-	-	-	-	12,905
<i>Financial guarantee given to customers</i>	320,821	53,445	7,297	16,972	5,979	239	14,175	-	222,714
Total	42,673,507	726,959	1,189,180	113,127	3,750,178	145,340	142,233	230,443	36,376,047
Guarantees received from banks, financial institutions and customers									
Utilised collateral		726,959	1,189,180	113,127	3,750,178	145,340	142,233		6,067,017
Surplus of collateral before undrawn credit lines		2,838,113	3,207,150	10,154	10,704,038	256,524	1,207,227		18,223,206
		3,565,072	4,396,330	123,281	14,454,216	401,864	1,349,460		24,290,223

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,126,797 million as at 31 December 2020.

2019									
	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million	Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Risk Transfer LBP Million	Net Credit Exposure LBP Million
Balances with central banks	22,664,033	-	-	-	-	-	-	-	22,664,033
Due from banks and financial institutions	2,177,906	-	-	-	-	-	-	-	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	700,457	-	-	521,942	-	-	-	-	178,515
Derivative financial instruments	290,924	-	-	-	-	-	-	-	290,924
Financial assets at fair value through profit or loss	314,006	-	-	-	-	-	-	-	314,006
Loans and advances to customers at amortised cost	15,461,671	1,834,279	1,527,259	83,518	4,933,233	178,481	446,746	-	6,458,155
Corporate and SME	10,144,452	872,227	728,116	81,716	3,249,555	36,469	394,402	-	4,781,967
Retail and Personal Banking	5,024,453	959,372	799,143	1,802	1,683,678	142,012	52,344	-	1,386,102
Public sector	292,766	2,680	-	-	-	-	-	-	290,086
Loans and advances to related parties at amortised cost	140,489	87,944	7,234	-	26,737	320	1,510	-	16,744
Debtors by acceptances	657,759	409,572	305	420	1,590	-	1,496	-	244,376
Financial assets at amortised cost	12,318,944	-	-	-	-	-	-	741,532	11,577,412
Financial assets at fair value through other comprehensive income	1,086,112	-	-	-	-	-	-	-	1,086,112
Other assets	1,430,302	-	-	-	-	-	-	-	1,430,302
Contingent liabilities	1,456,543	146,899	17,526	23,098	41,515	644	22,997	-	1,203,864
Letters of credit	663,645	64,319	-	313	1,056	-	27	-	597,930
Financial guarantee given to banks and financial institutions	77,874	-	-	-	-	-	-	-	77,874
Financial guarantee given to customers	715,024	82,580	17,526	22,785	40,459	644	22,970	-	528,060
Total	58,699,146	2,478,694	1,552,324	628,978	5,003,075	179,445	472,749	741,532	47,642,349
Guarantees received from banks, financial institutions and customers									
Utilised collateral		2,478,694	1,552,324	628,978	5,003,075	179,445	472,749		10,315,265
Surplus of collateral before undrawn credit lines		1,783,250	3,726,857	28,655	13,464,227	466,138	2,199,881		21,669,008
		4,261,944	5,279,181	657,633	18,467,302	645,583	2,672,630		31,984,273

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 3,873,428 million as at 31 December 2019.

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The Group obtains collaterals during its lending activities as a protection against potential losses that may result when borrowers default on their credit obligations. The amount and type of collateral required depend usually on the obligor’s creditworthiness. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of a received collateral on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

The main types of collateral obtained are as follows:

- Securities: the balances shown represent the fair value of the securities.
- Letters of credit/guarantees: the Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.

- Real estate (commercial and residential): the Group holds, in some cases, a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.
- Netting agreements: the Group makes use of netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation, with its counterparties. Such arrangements provide for net settlement of all financial instruments covered by the agreements in the event of default. Although these netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they nevertheless reduce the Group’s exposure to credit risk outstanding amounts of such contracts, as shown in the above table.

In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees from borrowing companies’ shareholders, second degree mortgages on real estate assets, and assignments of insurance or bills proceeds and revenues, which are not reflected in the above table.

54.0. | MARKET RISK

Market risk is defined as the potential loss in both on-balance sheet and off-balance sheet positions resulting from movements in market risk factors such as foreign exchange rates, interest rates and equity prices.

The responsibilities of the Market Risk unit are to identify, measure, monitor control and report all current and future potential market risks to which the Group is exposed. This includes the effective implementation of a proper risk management framework around the treasury, investment portfolio, and asset and liability activities through

CURRENCY RISK

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices, fluctuations in interest rates and exchange rate volatility in general. The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars, Euros, Egyptian Pounds and Turkish Liras.

As disclosed in Note 1, the Group’s assets and liabilities in foreign currencies are valued at the official exchange rate. Due to the high

the adoption of consistent and comprehensive risk management tools and methodologies. The Group monitors the risk profile generated by these activities in order to ensure that it remains in line with the approved risk policies and limits.

The Group conducts stress testing on a regular basis using various scenarios and assumptions that are deemed plausible and relevant to its business model and operating environment.

volatility and the significant variance in exchange rates between the multiple currency market, this does not always represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the financial statements. Management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognised in the financial statements once the change in the official exchange rate and/or a legal exchange mechanism is implemented by the Lebanese government.

The following tables present the breakdown of assets and liabilities of the Group by currency. Impairment allowances are reflected in the tables below in the currency in which they were recorded, which might differ from the original currency of the impaired asset.

	2020						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets							
Cash and balances with central banks	4,208,001	12,238,017	1,528,497	57,209	-	1,454,486	19,486,210
Due from banks and financial institutions	5,758	1,136,307	412,160	69,638	-	544,096	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	4,456	-	19,970	239,820	-	-	264,246
Derivative financial instruments	-	17,893	14,977	170,557	-	15,393	218,820
Financial assets at fair value through profit or loss	691	52,639	13,028	34,318	-	291,391	392,067
Loans and advances to customers at amortised cost	1,873,459	3,244,230	1,691,777	1,963,256	10	369,530	9,142,352
Loans and advances to related parties at amortised cost	18,152	89,243	805	-	-	-	108,200
Debtors by acceptances	-	11,447	2,331	-	-	4,114	17,892
Financial assets at amortised cost	3,445,673	4,228,158	74,477	39,185	-	-	7,787,493
Financial assets at fair value through other comprehensive income	20,245	477,366	78,551	942,211	-	-	1,518,373
Investments in associates	-	113,923	-	-	-	-	113,923
Property and equipment and right-of-use assets	522,417	667	4,141	38,807	-	69,896	635,928
Intangible assets	59,324	-	585	19,989	-	1,183	81,081
Assets obtained in settlement of debt	(4,590)	69,691	-	138,059	-	-	203,160
Other assets	1,451,806	82,212	17,280	117,471	1	16,671	1,685,441
Deferred tax assets	545	(30)	12	46,675	-	6,454	53,656
Goodwill	-	42,384	-	-	-	-	42,384
Assets held for sale	(34,791)	1,145,162	90,073	-	7,296,077	996,626	9,493,147
Total assets	11,571,146	22,949,399	3,948,664	3,877,195	7,296,088	3,769,840	53,412,332
Liabilities and shareholders' equity							
Due to central banks	2,619,260	786,312	-	618,736	-	-	4,024,308
Due to banks and financial institutions	6,434	948,703	294,287	3,221	-	122,640	1,375,285
Due to banks under repurchase agreements	-	139,171	-	4,717	-	-	143,888
Derivative financial instruments	-	248,391	20,001	157,271	117	21,013	446,793
Customers' deposits	4,214,208	22,413,402	3,091,728	1,609,183	44	962,130	32,290,695
Deposits from related parties	4,762	130,382	25,609	-	-	2,266	163,019
Debt issued and other borrowed funds	-	1,202,225	-	115,588	-	-	1,317,813
Engagements by acceptances	-	11,447	2,331	-	-	4,114	17,892
Other liabilities	147,420	156,563	13,829	93,027	-	35,414	446,253
Deferred tax liabilities	1,279	(100)	-	-	-	4,839	6,018
Current tax liability	76,901	(379)	-	3,664	-	(1,438)	78,748
Provisions for risks and charges	76,708	16,423	3,526	26,911	-	27,031	150,599
Liabilities held for sale	-	1,108,198	87,818	-	6,555,393	751,192	8,502,601
Shareholders' equity	2,345,558	2,210,624	34,871	(863,676)	336,243	384,800	4,448,420
Total liabilities and shareholders' equity	9,492,530	29,371,362	3,574,000	1,768,642	6,891,797	2,314,001	53,412,332

	2019						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets							
Cash and balances with central banks	6,497,178	11,709,277	1,764,062	48,343	2,237,570	913,089	23,169,519
Due from banks and financial institutions	8,818	1,307,095	388,884	141,855	31,890	299,364	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	10,473	-	13,542	662,232	14,210	-	700,457
Derivative financial instruments	8,233	58,024	26,865	179,531	-	18,271	290,924
Financial assets at fair value through profit or loss	721	56,078	27,032	371	2,827	294,053	381,082
Loans and advances to customers at amortised cost	1,520,785	7,126,095	2,180,303	1,796,309	1,834,403	1,003,776	15,461,671
Loans and advances to related parties at amortised cost	18,186	120,321	226	-	-	1,756	140,489
Debtors by acceptances	-	577,764	71,725	-	440	7,650	657,579
Financial assets at amortised cost	2,469,640	8,349,453	123,097	159,753	826,454	390,547	12,318,944
Financial assets at fair value through other comprehensive income	24,594	43,762	11,054	131,651	798,930	144,902	1,154,893
Investments in associates	-	121,139	-	-	-	-	121,139
Property and equipment and right-of-use assets	598,245	3,250	5,413	53,795	212,912	123,571	997,186
Intangible assets	66,683	-	262	18,955	25,395	3,849	115,144
Assets obtained in settlement of debt	(11,960)	151,548	523	149,608	270	-	289,989
Other assets	1,183,466	127,846	10,787	129,376	11,908	29,484	1,492,867
Deferred tax assets	5,512	(51)	12	62,288	-	19,365	87,126
Goodwill	-	42,422	-	-	-	-	42,422
Total assets	12,400,574	29,794,023	4,623,787	3,534,067	5,997,209	3,249,677	59,599,337
Liabilities and shareholders' equity							
Due to central banks	2,657,580	2,886,013	62,888	1,016	1,993	42,472	5,651,962
Due to banks and financial institutions	6,341	1,099,912	150,148	9,856	123,141	167,106	1,556,504
Due to banks under repurchase agreements	-	42,969	-	-	-	-	42,969
Derivative financial instruments	5,238	186,833	12,810	143,949	91	23,181	372,102
Customers' deposits	5,617,288	25,999,865	3,949,558	2,025,330	5,127,759	1,616,760	44,336,560
Deposits from related parties	7,954	245,674	19,676	-	-	3,006	276,310
Debt issued and other borrowed funds	-	1,201,078	-	192,561	-	-	1,393,639
Engagements by acceptances	-	577,764	71,725	-	440	7,650	657,579
Other liabilities	216,263	117,802	13,018	106,942	39,966	90,073	584,064
Deferred tax liabilities	2,326	694	-	-	35,504	5,354	43,878
Current tax liability	7,672	2,982	2	-	9,449	8,220	28,325
Provisions for risks and charges	86,726	10,097	1,103	30,677	21,549	28,667	178,819
Shareholders' equity	2,679,034	1,857,805	48,683	(767,328)	264,890	393,542	4,476,626
Total liabilities and shareholders' equity	11,286,422	34,229,488	4,329,611	1,743,003	5,624,782	2,386,031	59,599,337

Assets and liabilities in foreign currencies presented in the tables above include onshore assets and liabilities in foreign currencies that are subject to unofficial capital controls in Lebanon, which is further explained in Note 1. These are held by entities operating in Lebanon and will be realised/settled without recourse to foreign currency cash and/or foreign bank accounts outside Lebanon (“fresh funds”). Hence these

cannot be perceived to have an economic value equivalent to that of offshore foreign currency assets and liabilities, and should be viewed and managed separately. The tables below detail onshore assets and liabilities in foreign currencies:

	2020					
	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets						
Cash and balances with central banks	11,652,691	933,915	-	-	2,695	12,589,301
Due from banks and financial institutions	31,063	70,351	-	-	8	101,422
Derivative financial instruments	17,265	-	-	-	-	17,265
Financial assets at fair value through profit or loss	36,927	1,534	-	-	-	38,461
Loans and advances to customers at amortised cost	1,837,105	125,623	-	-	3,299	1,966,027
Loans and advances to related parties at amortised cost	22,118	292	-	-	-	22,410
Financial assets at amortised cost	3,868,291	-	-	-	-	3,868,291
Financial assets at fair value through other comprehensive income	17,020	188	-	-	-	17,208
Investment in associates	113,923	-	-	-	-	113,923
Property and equipment and right-of-use assets	667	-	-	-	84	751
Assets obtained in settlement of debt	69,691	-	-	-	-	69,691
Other assets	50,961	4,350	-	1	2,122	57,434
Deferred tax assets	(30)	(2)	-	-	-	(32)
Total assets	17,717,692	1,136,251	-	1	8,208	18,862,152
Liabilities						
Due to central banks	786,312	-	-	-	-	786,312
Due to banks and financial institutions	522,544	79,414	1	-	526	602,485
Customers' deposits	17,463,181	973,882	-	43	144,906	18,582,012
Deposits from related parties	48,407	12,159	-	-	735	61,301
Other liabilities	99,464	3,856	-	-	109	103,429
Deferred tax liabilities	(100)	-	-	-	-	(100)
Provisions for risks and charges	9,633	2	-	-	-	9,635
Total liabilities	18,929,441	1,069,313	1	43	146,276	20,145,074

	2019					
	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets						
Cash and balances with central banks	10,997,566	1,153,365	-	-	3,055	12,153,986
Due from banks and financial institutions	12,123	64,291	-	-	66	76,480
Derivative financial instruments	17,625	-	-	-	-	17,625
Financial assets at fair value through profit or loss	45,098	4,732	-	-	-	49,830
Loans and advances to customers at amortised cost	4,728,203	215,001	-	-	56,116	4,999,320
Loans and advances to related parties at amortised cost	35,757	169	-	-	9	35,935
Financial assets at amortised cost	7,824,132	-	-	-	-	7,824,132
Financial assets at fair value through other comprehensive income	11,076	173	-	-	-	11,249
Investment in associates	121,139	-	-	-	-	121,139
Property and equipment and right-of-use assets	894	-	-	-	82	976
Assets obtained in settlement of debt	151,548	-	-	-	-	151,548
Other assets	98,914	(418)	-	-	158	98,654
Deferred tax assets	(51)	(2)	-	-	-	(53)
Total assets	24,044,024	1,437,311	-	-	59,486	25,540,821
Liabilities						
Due to central banks	2,886,013	62,888	-	-	-	2,948,901
Due to banks and financial institutions	146,299	73,440	-	-	11,313	231,052
Customers' deposits	21,025,335	1,101,993	-	2	229,769	22,357,099
Deposits from related parties	105,705	17,141	-	-	861	123,707
Other liabilities	99,211	1,953	-	-	214	101,378
Deferred tax liabilities	677	-	-	-	-	677
Provisions for risks and charges	4,652	-	-	-	-	4,652
Total liabilities	24,267,892	1,257,415	-	2	242,157	25,767,466

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Positions are monitored on a daily basis by Management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

The Group employs hedging activities, utilising derivative instruments to ensure positions are maintained within the established limits. The details of the Group's hedging activities are disclosed in Note 19.

The table below shows the sensitivity of interest income to 1% parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated

financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2020 and 2019. Given the prolonged nature of the Lebanese crisis and related high level of uncertainties, the Group expects the low interest rates environment to potentially prevail in Lebanon during 2021. The Group is also unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through its various intermediate circulars. The change in interest income is calculated over a 1-year period.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 37 to these financial statements.

The effect of any future associated hedges made by the Group is not accounted for.

	Decrease in Basis Points	2020	2019
		LBP Million Decrease	LBP Million Decrease
LBP	- 100	4,052	27,267
USD	- 100	131,592	129,708
EUR	- 100	10,155	8,448
TRY	- 100	12,200	1,168

The Group's interest sensitivity position based on contractual repricing arrangements is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of customers' demand deposits.

	2020								
	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million	Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	Total LBP Million
Assets									
Cash and balances with central banks	5,825,472	593,865	566,470	6,985,807	3,925,986	7,646,599	11,572,585	927,818	19,486,210
Due from banks and financial institutions	2,090,399	48,867	4,063	2,143,329	-	-	-	24,630	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	82,290	14,904	107,184	204,378	57,901	1,879	59,780	88	264,246
Derivative financial instruments	13,011	64,497	33,737	111,245	62,403	27,901	90,304	17,271	218,820
Financial assets at fair value through profit or loss	299,878	23,620	1,549	325,047	9,478	1,933	11,411	55,609	392,067
Loans and advances to customers at amortised cost	2,481,055	1,678,936	2,141,679	6,301,670	1,901,867	728,387	2,630,254	210,428	9,142,352
Loans and advances to related parties at amortised cost	23,131	23	4,725	27,879	76,422	3,685	80,107	214	108,200
Financial assets at amortised cost	-	51,328	677,029	728,357	3,481,149	3,448,930	6,930,079	129,057	7,787,493
Financial assets at fair value through other comprehensive income	41,140	120,417	231,649	393,206	887,036	172,417	1,059,453	65,714	1,518,373
Total assets	10,856,376	2,596,457	3,768,085	17,220,918	10,402,242	12,031,731	22,433,973	1,430,829	41,085,720
Liabilities									
Due to central banks	606,077	7,929	34,833	648,839	878,633	2,447,528	3,326,161	49,308	4,024,308
Due to banks and financial institutions	823,749	-	278,664	1,102,413	188,815	64,502	253,317	19,555	1,375,285
Due to banks under repurchase agreements	142,514	-	-	142,514	-	-	-	1,374	143,888
Derivative financial instruments	33,771	30,990	40,682	105,443	62,560	278,790	341,350	-	446,793
Customers' deposits	24,071,881	3,106,748	2,311,288	29,489,917	1,821,678	31,069	1,852,747	948,031	32,290,695
Deposits from related parties	88,313	2,773	3,568	94,654	68,176	15	68,191	174	163,019
Debt issued & other borrowed funds	86,089	16,341	239,231	341,661	555,861	386,504	942,365	33,787	1,317,813
Lease liabilities	809	145	1,091	2,045	15,874	24,497	40,371	-	42,416
Total liabilities	25,853,203	3,164,926	2,909,357	31,927,486	3,591,597	3,232,905	6,824,502	1,052,229	39,804,217
Interest rate sensitivity gap	(14,996,827)	(568,469)	858,728		6,810,645	8,798,826			
Cumulative gap	(14,996,827)	(15,565,296)	(14,706,568)		(7,895,923)	902,903			

	2019								
	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million	Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	Total LBP Million
Assets									
Cash and balances with central banks	5,341,802	1,179,040	869,829	7,390,671	3,224,139	10,546,267	13,770,406	2,008,442	23,169,519
Due from banks and financial institutions	2,118,410	34,761	-	2,153,171	-	-	-	24,735	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	666,595	14,215	18,938	699,748	-	-	-	709	700,457
Derivative financial instruments	26,445	43,103	69,041	138,589	140,361	4,866	145,227	7,108	290,924
Financial assets at fair value through profit or loss	294,090	156	45	294,291	16,688	639	17,327	69,464	381,082
Loans and advances to customers at amortised cost	5,538,913	1,784,778	2,731,165	10,054,856	3,302,371	1,834,163	5,136,534	270,281	15,461,671
Loans and advances to related parties at amortised cost	29,275	347	2,253	31,875	95,016	13,373	108,389	225	140,489
Financial assets at amortised cost	40,142	638,338	296,772	975,252	5,943,362	5,172,092	11,115,454	228,238	12,318,944
Financial assets at fair value through other comprehensive income	10,039	27,937	585,925	623,901	272,121	190,090	462,211	68,781	1,154,893
Total assets	14,065,711	3,722,675	4,573,968	22,362,354	12,994,058	17,761,490	30,755,548	2,677,983	55,795,885
Liabilities									
Due to central banks	1,653,221	17,263	1,259,952	2,930,436	359,908	2,336,403	2,696,311	25,215	5,651,962
Due to banks and financial institutions	1,099,462	123,739	268,763	1,491,964	43,743	-	43,743	20,797	1,556,504
Due to banks under repurchase agreements	42,723	-	-	42,723	-	-	-	246	42,969
Derivative financial instruments	37,456	30,467	54,104	122,027	81,766	162,911	244,677	5,398	372,102
Customers' deposits	24,433,461	6,155,618	8,151,020	38,740,099	4,515,166	70,523	4,585,689	1,010,772	44,336,560
Deposits from related parties	152,230	37,951	5,646	195,827	79,887	79	79,966	517	276,310
Debt issued & other borrowed funds	-	192,562	226,125	418,687	522,695	426,300	948,995	25,957	1,393,639
Lease liabilities	10,072	2,680	15,574	28,326	64,857	56,670	121,527	-	149,853
Total liabilities	27,428,625	6,560,280	9,981,184	43,970,089	5,668,022	3,052,886	8,720,908	1,088,902	53,779,899
Interest rate sensitivity gap	(13,362,914)	(2,837,605)	(5,407,216)		7,326,036	14,708,604			
Cumulative gap	(13,362,914)	(16,200,519)	(21,607,735)		(14,281,699)	426,905			

PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. This is applicable for example on fixed rate loans when market interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers the impact of prepayment risk on net profits to be not material after considering any penalty fees received on prepayment activities, when existing.

EQUITY PRICE RISK

Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies/maturities) in which the Group holds equity-related positions.

Given the very low risk appetite of the Group for such type of risk exposure, the Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock/index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

55.0. | LIQUIDITY RISK

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

commitments, may come under increasing pressure under a deteriorating operating environment, such as currently the case in Lebanon.

The Group manages liquidity at the entity level independently while keeping oversight of intra-group dependencies. The Group recognises that its ability to meet its liquidity requirements, including international

The following outlines the monitoring process that takes place at the entity level including some activities that are more relevant to the Lebanese operations.

MONITORING PROCESS

DAILY

Due to the ongoing economic and financial crisis in Lebanon, Management focused its effort on the monitoring of international liquidity coverage relative to international commitments, including external account deposits.

On a daily basis, the Market Risk unit within the Risk Management function prepares a report on international liquid assets showing the change in the position compared to the previous period, as well as the coverage level relative to international commitments. In addition, Treasury monitors daily and intra-day inflows and outflows to ensure funding gaps are met.

WEEKLY

The Market Risk unit prepares a weekly report on, i) expected inflows and outflows for the current and next quarters and ii) values and maturities of highly liquid assets.

MONTHLY

The Market Risk unit submits a monthly ALM report to ALCO showing changes in the liquidity position including highly liquid assets and future flows.

QUARTERLY

The Board of Directors is informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis.

PERIODIC

The liquidity position is assessed under various scenarios, including simulation of Group-specific crisis and market-wide crisis. The stress scenarios are applied to both on-balance sheet and off-balance sheet commitments, to provide a comprehensive picture of potential cash outflows.

Moreover, stress testing is carried out annually for all material banking units of the Group as part of the ICAAP preparation and submission. Scenarios used in these stress tests vary between entities to reflect their local market operating environments. Scenarios may include, among others, the following assumptions:

- Significant withdrawals of USD and/or foreign currency deposits.
- Significant withdrawals of undrawn and committed credit lines.

LIQUIDITY RATIOS

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general, and specifically to the Group. In Lebanon and since October 2019 events, the Group monitors on a daily basis the ratio of available international foreign currency liquidity to international commitments over various time horizons.

The Central Bank of Lebanon, through its Basic circular 154 dated 27 August 2020, issued various requirements aiming at restoring the normal banking operations in Lebanon to their pre-October 2019 levels. Among these requirements, Lebanese banks were requested to

- Significant haircut on liquid assets.
- Unavailability of wholesale (interbank) funding.
- Significant reduction in assets that are eligible as collateral in the refinancing operations.

Furthermore, the Group has drafted policies for monitoring and managing liquidity risk. These include setting up remedial actions to be taken in response to potential liquidity stress events.

The Group’s Liquidity Risk Policy is reviewed by ALCO, which submits it with its recommendations to the Board Risk Committee for approval.

maintain total current account balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the bank’s total foreign currency deposits as at 31 July 2020 by 28 February 2021. On 24 December 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio. The Bank in Lebanon is compliant with this regulatory international liquidity ratio. On 16 January 2021, the Bank submitted to the regulations an adjusted calculation for meeting these requirements. The approval of the regulations for meeting this ratio is pending as of the date of these financial statements.

SOURCES OF FUNDING

Customers’ deposits were the main funding source of the Group as at 31 December 2020 and 2019. The distribution of sources and the maturity of deposits are actively monitored in order to avoid high concentration of deposits by maturity and size. The Group monitors the percentage of core deposits versus total deposits and aims to ensure that this percentage is maintained at a high level.

The Group stresses the importance of customers’ deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers as a percentage of clients’ deposits.

	LBP		Foreign Currencies	
	2020 %	2019 %	2020 %	2019 %
Year-end	48	27	26	36
Maximum	49	31	35	43
Minimum	28	23	26	36
Average	39	29	32	39

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the Group’s financial liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities were determined based on the period

remaining to reach maturity as per the statement of financial position’s actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

2020						
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total LBP Million
Financial liabilities						
Due to central banks	641,002	13,734	106,336	1,140,688	2,549,766	4,451,526
Due to banks and financial institutions	849,819	622	100,460	432,571	24,476	1,407,948
Due to banks under repurchase agreements	143,888	-	-	-	-	143,888
Derivative financial instruments	33,771	30,990	40,682	62,560	278,790	446,793
Customers’ deposits	24,995,609	3,122,541	2,351,086	2,176,241	74,911	32,720,388
Deposits from related parties	89,529	2,738	2,552	68,296	15	163,130
Debt issued and other borrowed funds	104,858	16,338	61,003	931,026	381,424	1,494,649
Engagements by acceptances	5,777	8,652	3,210	-	253	17,892
Lease liabilities	809	145	1,091	15,874	24,497	42,416
Total financial liabilities	26,865,062	3,195,760	2,666,420	4,827,256	3,334,132	40,888,630

2019						
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total LBP Million
Financial liabilities						
Due to central banks	1,697,105	63,055	1,704,570	2,379,191	3,968,959	9,812,880
Due to banks and financial institutions	548,286	188,586	212,223	493,906	160,968	1,603,969
Due to banks under repurchase agreements	42,969	-	-	-	-	42,969
Derivative financial instruments	42,853	30,467	54,105	81,766	162,911	372,102
Customers’ deposits	23,972,715	7,486,212	8,665,025	6,024,122	226,879	46,374,953
Deposits from related parties	154,189	38,661	5,871	80,755	464	279,940
Debt issued and other borrowed funds	9,816	192,610	49,691	939,983	439,803	1,631,903
Engagements by acceptances	117,255	312,107	228,031	-	186	657,579
Lease liabilities	10,072	2,680	15,574	64,857	56,670	149,853
Total financial liabilities	26,595,260	8,314,378	10,935,090	10,064,580	5,016,840	60,926,148

The table below shows the contractual expiry by maturity of the Group’s contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn

down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

2020					
	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	Total LBP Million
Financial guarantees	316,193	3,435	10,823	3,275	333,726
Other guarantees	639,542	84,492	16,008	18,913	758,955
Documentary credits	70,240	131,496	119	-	201,855
Loan commitments	2,119,186	-	7,611	-	2,126,797
	3,145,161	219,423	34,561	22,188	3,421,333

2019					
	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	Total LBP Million
Financial guarantees	606,233	155,628	27,981	3,056	792,898
Other guarantees	964,027	119,939	12,940	18,592	1,115,498
Documentary credits	564,736	96,830	2,079	-	663,645
Loan commitments	3,615,690	231,349	26,389	-	3,873,428
	5,750,686	603,746	69,389	21,648	6,445,469

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group’s assets and liabilities.

The maturity profile of the assets and liabilities at 31 December 2020 is as follows:

	Less than 1 Year LBP Million	More than 1 Year LBP Million	Total LBP Million
Assets			
Cash and balances with central banks	6,850,770	12,635,440	19,486,210
Due from banks and financial institutions	2,167,959	-	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	200,047	64,199	264,246
Derivative financial instruments	148,748	70,072	218,820
Financial assets at fair value through profit or loss	326,268	65,799	392,067
Loans and advances to customers at amortised cost	4,930,841	4,211,511	9,142,352
Loans and advances to related parties at amortised cost	22,906	85,294	108,200
Debtors by acceptances	17,639	253	17,892
Financial assets at amortised cost	846,865	6,940,628	7,787,493
Financial assets at fair value through other comprehensive income	356,737	1,161,636	1,518,373
Investments in associates	-	113,923	113,923
Property and equipment and right-of-use assets	-	635,928	635,928
Intangible assets	-	81,081	81,081
Assets obtained in settlement of debt	-	203,160	203,160
Other assets	331,149	1,354,292	1,685,441
Deferred tax assets	-	53,656	53,656
Goodwill	-	42,384	42,384
Assets held for sale	6,235,283	3,257,864	9,493,147
Total assets	22,435,212	30,977,120	53,412,332
Liabilities and shareholders’ equity			
Due to central banks	683,379	3,340,929	4,024,308
Due to banks and financial institutions	940,148	435,137	1,375,285
Due to banks under repurchase agreements	143,888	-	143,888
Derivative financial instruments	142,854	303,939	446,793
Customers’ deposits	30,425,419	1,865,276	32,290,695
Deposits from related parties	94,784	68,235	163,019
Debt issued and other borrowed funds	136,304	1,181,509	1,317,813
Engagements by acceptances	17,639	253	17,892
Other liabilities	285,326	160,927	446,253
Current tax liability	78,748	-	78,748
Deferred tax liabilities	-	6,018	6,018
Provision for risks and charges	-	150,599	150,599
Liabilities held for sale	5,611,168	2,891,433	8,502,601
Shareholders’ equity	-	4,448,420	4,448,420
Total liabilities and shareholders’ equity	38,559,657	14,852,675	53,412,332

The maturity profile of the assets and liabilities at 31 December 2019 is as follows:

	Less than 1 Year LBP Million	More than 1 Year LBP Million	Total LBP Million
Assets			
Cash and balances with central banks	8,024,915	15,144,604	23,169,519
Due from banks and financial institutions	2,177,906	-	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	688,628	11,829	700,457
Derivative financial instruments	147,472	143,452	290,924
Financial assets at fair value through profit or loss	361,378	19,704	381,082
Loans and advances to customers at amortised cost	8,082,659	7,379,012	15,461,671
Loans and advances to related parties at amortised cost	31,402	109,087	140,489
Debtors by acceptances	657,393	186	657,579
Financial assets at amortised cost	894,567	11,424,377	12,318,944
Financial assets at fair value through other comprehensive income	689,590	465,303	1,154,893
Investments in associates	-	121,139	121,139
Property and equipment and right-of-use assets	-	997,186	997,186
Intangible assets	-	115,144	115,144
Assets acquired in settlement of debt	-	289,989	289,989
Other assets	135,100	1,357,767	1,492,867
Deferred tax assets	-	87,126	87,126
Goodwill	-	42,422	42,422
Total assets	21,891,010	37,708,327	59,599,337
Liabilities and shareholders' equity			
Due to central banks	2,955,652	2,696,310	5,651,962
Due to banks and financial institutions	935,895	620,609	1,556,504
Due to banks under repurchase agreements	42,969	-	42,969
Derivative financial instruments	127,425	244,677	372,102
Customers' deposits	39,400,970	4,935,590	44,336,560
Deposits from related parties	196,344	79,966	276,310
Debt issued and other borrowed funds	205,016	1,188,623	1,393,639
Engagements by acceptances	657,393	186	657,579
Other liabilities	378,489	205,575	584,064
Current tax liability	28,325	-	28,325
Deferred tax liabilities	-	43,878	43,878
Provision for risks and charges	-	178,819	178,819
Shareholders' equity	-	4,476,626	4,476,626
Total liabilities and shareholders' equity	44,928,478	14,670,859	59,599,337

56.0. | OPERATIONAL RISK

Operational risk is defined as the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. The Basel definition of operational risk includes legal risk, and excludes reputational and strategic risks. Still, the failure in mitigating operational risk may result in reputational and/or franchise risk, disruptions, loss of business, or non-compliance with laws and regulations which can lead to significant financial losses. Therefore, reputational and strategic risks are indirectly mitigated once the operational risks acting as their key drivers are well managed.

The operational risk management framework is implemented by an independent Operational Risk function. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through annual reviews.

Operational risks are managed across the Group based on a set of principles and standards detailed in the Board-approved Group Operational Risk Policy. These principles and standards include at a minimum: redundancy of mission-critical systems, segregation of duties, four-eyes principle, independency of employees performing controls, reconciliations, mandatory vacations, awareness, training and job

rotation of employees. Controls are also embedded within systems and formalised in policies and procedures.

Incidents are captured and analysed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Assessments (RCAs) are conducted to identify risks and control vulnerabilities associated with existing or new products, processes, activities and systems. Key Risk Indicators (KRIs) are also developed continuously to detect breaches and alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Major incidents, RCA findings and a set of KRIs are reported to the Board of Directors and Board Group Risk Committee periodically as per the governance framework set in the Group Operational Risk policy.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume, nature and operating environment.

57.0. | LITIGATION RISK

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal claims against the Group (Note 49). Since 17 October 2019, the Group has been subject to an increased litigation risk level, in Lebanon and abroad, as a result of the restrictive measures adopted by Lebanese banks in relation to the withdrawal of funds and transfers abroad. Management has carefully considered the

impact of existing litigation and claims against the Group in relation to these restrictive measures. There are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices. Management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

58.0. | POLITICAL RISK

External factors which are beyond the control of the Group, such as political developments and government actions in Lebanon (Note 1) and other countries may adversely affect the operations of the Group, its strategy and prospects. Other important political risk factors include government intervention on the Group's activities and social developments in the countries in which the Group operates, political developments in Lebanon, and the political and social unrest and political

instability or military conflict in neighbouring countries and/or other overseas areas. Given the above, the Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on Group's activities, operating results and position.

59.0. | CAPITAL MANAGEMENT

The adequacy of the Group’s capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Lebanon, which is the lead supervisor of the Group.

Central Bank of Lebanon’s Intermediate circular 567, issued on 26 August 2020, introduced several key changes in the calculation of regulatory capital adequacy ratios. These changes include:

- Raising the regulatory expected credit loss level for Lebanese Government securities in foreign currency and Lebanese government-related exposures in same currency from 9.45% to 45%. Regulatory ECL for other exposures remain unchanged.

	2020	2019
Type of financial instrument		
Exposures to Central Bank of Lebanon in foreign currency	1.89 %	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Pounds	0 %	0 %
Lebanese government securities in foreign currency	45 %	9.45 %
Lebanese government securities in Lebanese Pounds	0 %	0 %

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their common equity tier one capital as of 31 December 2018, through issuing new foreign currency capital instruments, as well as other approaches that meet the criteria for inclusion as regulatory capital. The deadline for raising capital was initially set at 31 December 2020, but was later extended for the banking sector to 28 February 2021. Central Bank of Lebanon’s Central Council may exceptionally approve a bank to complete 50% of the 20% required capital increase through the transfer of real estate assets owned by the shareholders to the concerned bank. However, these real estate assets must be liquidated during a 5-year period following regulatory approval date on this transaction. *As disclosed in Note 1, the Bank issued new capital instruments for USD 209 million and submitted measures to the regulators for strengthening its standalone equity by 20% which are pending the approval of the regulators.*

- Inclusion of 100% of revaluations gain of owned real estate properties (excluding ones acquired in settlement of bad debt as per Article 154 of Code Money & Credit) in Common Equity Tier 1, instead of 50% of this gain in Tier 2 as previously was the case. The regulatory deadline for completing the reappraisal process for such properties was set on 31 December 2021. *As a result, the levels of Common Equity Tier 1 and Tier 2 Capital reported below increased by LBP 337 billion and decreased by LBP 169 billion respectively at 31 December 2020 compared to 31 December 2019.*

Exceptionally during 2020 and 2021, allowing banks to draw down the 2.5% capital conservation buffer on condition of rebuilding it progressively starting 2022 by 0.75% each year, to reach the minimum required level of 2.5% by the end of 2024. *The Group did not draw down its capital conservation buffer as at 31 December 2020.*

Prohibiting Lebanese banks from distributing dividends on common shares for the financial years 2019 and 2020, as well as prohibiting banks from distributing dividends if capital adequacy ratios drop below 7% for Common Equity Tier 1, 10% for Tier 1 and 12% for total capital (compared to the regulatory minimum limits of 7%, 8.5% and 10.5% respectively, including a 2.5% capital conservation buffer).

Exceptionally for 2020 and 2021, allowing the Bank to include provisions for expected credit losses on Stage 1 and 2 exposures, excluding those relating to Lebanese sovereign and the Central Bank of Lebanon, under regulatory Common Equity Tier 1 (previously only Stage 1 allowances were included in Tier 2 capital, subject to a 1.25% cap relative to credit risk weighted assets). Such provisions included under CET 1 should be amortised over a period of 3 years starting 2022 and ending in 2024 by 25% yearly.

As a result, the levels of Common Equity Tier 1 and Tier 2 Capital reported below increased by LBP 748 billion and decreased by LBP 140 billion respectively at 31 December 2020 compared to 31 December 2019.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
31 December 2020			
Minimum required capital ratios	4.50%	6.00%	8.00%
With the full capital conservation buffer of 2.5%	7.00%	8.50%	10.50%
31 December 2019			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%

	2020 LBP Million	2019 LBP Million
Risk-weighted assets:		
Credit risk	37,577,900	39,624,309
Market risk	2,369,382	792,337
Operational risk	3,195,438	3,838,150
Total risk-weighted assets	43,142,720	44,254,796

The regulatory capital including net loss for the year as of 31 December is as follows:

	2020 LBP Million	2019 LBP Million
Tier 1 capital	4,968,202	3,856,763
Of which: Common Tier 1	4,038,672	2,925,854
Tier 2 capital	693,484	1,143,595
Total capital	5,661,686	5,000,358

The capital adequacy ratio including net loss for the year as of 31 December is as follows:

	2020	2019
Capital adequacy – Common Tier 1	9.36%	6.61%
Capital adequacy – Tier 1	11.52%	8.71%
Capital adequacy – Total capital	13.12%	11.30%

The capital adequacy ratios as at 31 December 2020 and 2019 were calculated based on the recorded figures and do not take into consideration the adjustments that may result from the resolution of the uncertainties reflected in Note 1. Due to the high levels of uncertainties, the lack of observable reliable indicators, the high gap between the currency parallel market rates, the Platform Rate and the official exchange rate and the lack of visibility on the government’s plans with respect to: (a) the high exposures of Lebanese banks with the Central

Bank of Lebanon, (b) the Lebanese sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, Management is unable to estimate in a reasonable manner, the impact of these matters on its Group’s capital adequacy. Management has concerns about the effects that the above matters will have on the capital of the Group and the recapitalisation needs that may arise once the necessary adjustments are determined and recorded.



04

MANAGEMENT

1.0. | GROUP AND BANK AUDI sa MANAGEMENT

LEBANON

CHAIRMAN & CEO

Mr. Samir N. HANNA	Chairman of the Board of Directors & Group Chief Executive Officer
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GROUP EXECUTIVE COMMITTEE

Voting Members

Mr. Khalil I. DEBS (Co-chair)	Deputy Group Chief Executive Officer
Mr. Tamer M. GHAZALEH (Co-chair)	Deputy Group Chief Executive Officer
Mr. Michel E. ARAMOUNI	Chief Capital Markets Officer
Mr. Mouayed C. MAKHLOUF	Head of International Division
Mr. Hassan A. SALEH	Chief Operating Officer

Non-voting Members

Mr. Elias L. ABOUSLEIMAN	Group Chief Risk Officer
Mr. Chahdan E. JEBEYLI	Group Head of Legal & Compliance

Secretary

Dr. Farid F. LAHOUD	Group Chief Compliance Officer & Corporate Secretary
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CENTRAL DEPARTMENTS

Mr. Toufic S. ARIDA	Assistant Chief Operating Officer – Technology
Mrs. Carol J. AYAT	Head of Large Corporates & Specialised Lending
Dr. Marwan S.BARAKAT	Group Chief Economist & Head of Research
Mrs. Peggy S. BAZ	Head of Legal
Mr. Mohamad G. BAYDOUN	Head of Corporate & Commercial Banking
Mr. Georges J. BOUSTANY	Head of Remedial Management
Mr. Mahmoud A. KURDY	Chief Financial Officer
Mrs. Nayiri H. MANOUKIAN	Head of Human Resources
Mr. Antoine N. NAJM	Group Head of Corporate Credit Management
Mrs. Rana S. NASSIF	Head of Internal Audit
Mr. Fady A. OBEID	Assistant Chief Operating Officer – Operations
Mr. Hassan H. SABBAH	Head of Credit Operations
Mr. Habib M. SAYDE	Head of Administrative
Mr. Bechara E. SERHAL	Head of Treasury
Mr. Jean N. TRABOULSI	Head of Marketing & Communications

BRANCHES NETWORK

Mr. Rabih E. BERBERY	Network Manager
Mrs. Ghina M. DANDAN	Network Manager
Mr. Kamal S. TABBARA	Network Manager
Ms. Wafaa’ S. YOUNES	Network Manager
Mrs. Carol S. ABOU JAOUDE	Regional Manager
Mr. Nagib A. CHEAIB	Regional Manager
Mrs. Joumana A. NAJJAR	Regional Manager
Mr. Fadi V. SAADE	Regional Manager

FINANCIAL INSTITUTIONS & CORRESPONDENT BANKING

Mr. Joseph A. NADER	Group Financial Institutions & Correspondent Banking
Tel: (961-1) 977644. Fax: (961-1) 989494. E-mail: joseph.nader@bankaudi.com.lb	

INVESTOR RELATIONS

Ms. Sana M. SABRA	Investor Relations
Tel: (961-1) 977496. Fax: (961-1) 970404. E-mail: sana.sabra@bankaudi.com.lb	

2.0. | ENTITIES’ MANAGEMENT

2.1. | ODEA BANK A.Ş.
TURKEY

BOARD OF DIRECTORS

		Member of the Credit Committee	Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee	Member of the Corporate Governance Committee
Dr. Imad I. ITANI	Chairman		Chair •		Chair•	
Mr. Tamer M. GHAZALEH	Vice-Chairman	Alternate		•	•	
Mr. Samir N. HANNA	Member					
Mr. Bülent T. ADANIR	Member		•	Chair •	•	
Mr. Khalil I. DEBS	Member	•				
Mr. Philippe F. EL KHOURY	Member		Advisor			Chair •
Dr. Mert R. ÖNCÜ	Member	Chair•				
Mr. Mouayed C. MAKHLOUF	Member	Alternate		•		•
Mr. Antoine N. NAJM	Member	•				
Mrs. Dragica N. PILIPOVIC-CHAFFEY	Member			•		•
Dr. Ayşe Botan M. BERKER	Member			•		
Dr. Farid F. LAHOUD	Member					

SENIOR MANAGEMENT

Dr. Mert R. ÖNCÜ	General Manager – Board Member
Mr. Yalçın F. AVCI	Deputy General Manager – Assistant General Manager – Commercial Banking
Mr. Emir Kadir F. ALPAY	Assistant General Manager – Treasury, Capital Markets and Financial Institutions
Mr. Cenk R. DEMİRÖZ	Assistant General Manager – Credit Allocation
Mr. Hüseyin H. GÖNÜL	Assistant General Manager – CRO/Internal Systems
Mr. Cem A. MURATOĞLU	Assistant General Manager – Retail Banking
Mr. Sinan Erdem S. ÖZER	Assistant General Manager – CIOO/Technology and Operations
Mr. Mehmet Gökmen C. UÇAR	Assistant General Manager – CFO/Finance, Financial Control and Strategy

2.2. | BAPB HOLDING LIMITED
CYPRUS

BOARD OF DIRECTORS

Mr. Marc J. AUDI	Member
Mr. Khalil I. DEBS	Member <i>(since 11.08.2020)</i>
Mr. Tamer M. GHAZALEH	Member
Mr. Alkis I. KAILOS	Member
Dr. Farid F. LAHOUD	Member
Mr. Georgios A. MICHAEL	Member <i>(since 20.10.2020)</i>
Mr. Youssef H. NIZAM	Member <i>(since 11.08.2020)</i>
Mr. Philippe R. SEDNAOUI	Member
Alter Domus Services Limited	Company Secretary

2.2.1. | BANQUE AUDI (SUISSE) SA
SWITZERLAND

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Remuneration Committee
Mr. Philippe R. SEDNAOUI	Chairman		
Mr. Michel A. CARTILLIER	Vice-Chairman	Chair	
Mr. Marc J. AUDI	Member		•
Mr. Pierre C. DE BLONAY	Member	•	
Mr. Samir N. HANNA	Member		•
Mr. Jean-Pierre R. JACQUEMOUD	Member	•	•
Mr. Pierre J. RESPINGER	Member		Chair

MANAGEMENT

Mr. Ragi J. BOUSTANY	General Manager
Mr. Elie J. BAZ	Head of Forex & Treasury
Mr. Jean-Marc S. CODORELLO	Head of Business Management
Mrs. Mireille L. GAVARD	Corporate Secretary
Mr. Joseph M. HALLIT	Head of Private Banking
Mr. Ian Gregor MACINTOSH	Chief Investment Officer
Mr. Gregory K. SATNARINE	Chief Financial Officer/Chief Operating Officer

2.2.2. | AUDI CAPITAL (KSA) cjsc
KINGDOM OF SAUDI ARABIA

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Nomination & Remuneration Committee
Mr. Abdullah I. AL HOBAYB	Chairman		Chair
Mr. Philippe R. SEDNAOUI	Vice-Chairman – Member		•
Mr. Chahdan E. JEBEYLI	Member	Chair	
Mr. Youssef H. NIZAM	Member/Managing Director		•
Dr. Asem T. ARAB	Independent member	•	
Dr. Khalil A. KORDI	Independent member	•	

MANAGEMENT

Mr. Youssef H. NIZAM	Managing Director <i>(effective 20/10/2020)</i>
Mr. Daniel R. ASMAR	General Manager (CEO) & Acting Head of Private Banking <i>(resigned effective 30/09/2020)</i>
Mr. Tony G. ABOU FAYSSAL	CFO & Acting Head of Investment Banking
Mr. John S. GEBEILY	Head of Investment Office & Acting Head of Asset Management <i>(resigned effective 18/01/2021)</i>
Mr. Abdulaziz A. AL GHUNEIM	Head of Wealth Management <i>(effective 11/10/ 2020)</i>
Mr. Raafat F. EL-ZOUHEIRY	Head of Corporate Governance

2.3. | OTHER ENTITIES

2.3.1. | BANK AUDI LLC
QATAR

BOARD OF DIRECTORS

		Member of the Executive Credit Committee
Mr. Khalil I. DEBS	Chairman	•
Mr. Rashed Nasser S. AL-KAABI	Member	
Mr. Elia S. SAMAHA	Member	
Mr. Philippe R. SEDNAOUI	Member	
Mrs. Ghina M. DANDAN	Member	
Mr. Hani R. ZAOUK	Member	•

MANAGEMENT

Mr. Hani R. ZAOUK	General Manager
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2.3.2. | BANK AUDI FRANCE sa
FRANCE

BOARD OF DIRECTORS

		Member of the Audit & Risk Committee
Mr. Elia S. SAMAHA	Chairman	•
Ms. Sherine R. AUDI	Member & General Manager	
Mr. Michel ARAMOUNI	Member <i>(since 18.09.2020)</i>	•
Mr. Antoine G. BOUFARAH	Member <i>(until 14.09.2020)</i>	•
Mr. Denis G. GILLET	Member	•
Bank Audi sal <i>(represented by Mr. Khalil I. DEBS)</i>	Member	

MANAGEMENT

Mrs. Sherine R. AUDI	General Manager – Chief Executive Officer
Mr. Noel J. HAKIM	Deputy General Manager – Chief Business Officer
Mr. Emile G. GHAZI	Assistant General Manager – Head of Corporate Banking <i>(until 31.12.2020)</i>

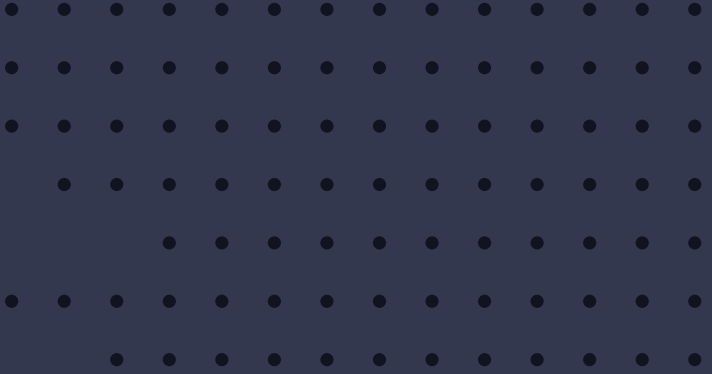
2.3.3. | SOLIFAC sa
LEBANON

BOARD OF DIRECTORS

		Member of the Risk & Audit Committee	Member of the ALCO Committee	Member of the Credit Committee	Member of the AML/CFT Committee
Mr. Khalil I. DEBS	Chairman	Chair	•	Chair	
Mr. Elie J. KAMAR	Chief Executive Officer	•	•	•	
Mr. Tamer M. GHAZALEH	Member	•	Chair		
Mr. Hassan A. SALEH	Member	•	•		Chair

MANAGEMENT

Mr. Elie J. KAMAR	Chief Executive Officer
Mrs. Lina F. SALEM	Assistant Chief Executive Officer



05

ADDRESSES



1.0. | LEBANON

BANK AUDI sal

Member of the Association of Banks in Lebanon
Capital: LBP 992,879,819,050 *(as at December 2020)*
Consolidated shareholders' equity:
LBP 4,448,419,828,889 *(as at December 2020)*
C.R. 11347 Beirut
List of Banks No. 56

HEADQUARTERS

Bank Audi Plaza, Bab Idriss.
P.O. Box 11-2560 Beirut - Lebanon
Tel: (961-1) 994000. Fax: (961-1) 990555.
Customer helpline: (961-1) 212120.
Swift: AUDBLBBX.
contactus@bankaudi.com.lb
bankaudigroup.com

BRANCHES

CORPORATE BRANCHES

ASHRAFIEH – MAIN BRANCH
SOFIL Center, Charles Malek Avenue.
Tel: (961-1) 200250. Fax: (961-1) 200724, 339092.
Senior Manager: Mrs. Rita M. Freiha

BAB IDRIS
Bank Audi Plaza, Omar Daouk Street.
Tel: (961-1) 977588. Fax: (961-1) 999410, 971502.
Network Manager – Corporate Banking:
Mrs. Ghina M. Dandan
Branch Manager: Mrs. Patricia G. Debs

VERDUN
Verdun 2000 Center, Rashid Karameh Avenue.
Tel: (961-1) 805805. Fax: (961-1) 865635, 861885.
Network Manager – Corporate Banking:
Mrs. Wafaa S. Younes
Branch Manager: Mr. Haytham M. Ramadan

BEIRUT
ASHRAFIEH – SASSINE
Le Gabriel Hotel, Elias Sarkis Avenue, Sassine.
Tel: (961-1) 200640. Fax: (961-1) 216685.
Branch Manager: Ms. Rita C. Haddad

BADARO
Ibrahim Ghattas Bldg., Badaro Street.
Tel: (961-1) 387395. Fax: (961-1) 387398.
Branch Manager: Mrs. Nayla S. Hanna

BESHARA EL-KHOURY
Banna & Sayrawan Bldg., Beshara El-Khoury Street.
Tel: (961-1) 664093. Fax: (961-1) 664096.
Branch Manager: Mrs. Roula F. Ramadan

BLISS
Kanater Bldg., Bliss Street.
Tel: (961-1) 361793. Fax: (961-1) 361796.
Branch Manager: Ms. Nisrine A. Ismail

GEFINOR
Gefinor Center, Clemenceau Street.
Tel: (961-1) 743400. Fax: (961-1) 743412.
Branch Manager: Ms. Rima M. Hoss

HAMRA
Mroueh Bldg., Hamra Street.
Tel: (961-1) 341491. Fax: (961-1) 344680.
Branch Manager: Mrs. Dima R. Chahine

JNAH
Tahseen Khayat Bldg., Khalil Moutran Street.
Tel: (961-1) 844870. Fax: (961-1) 844875.
Branch Manager: Mrs. Mariam H. Nizam

MAZRAA
Wakf El-Roum Bldg., Saeb Salam Blvd.
Tel: (961-1) 305612. Fax: (961-1) 316873, 300451.
Branch Manager: Mr. Moustafa M. Anouty

MOUSSEITBEH
Makassed Commercial Center, Mar Elias Street.
Tel: (961-1) 818277. Fax: (961-1) 303084.
Branch Manager: Mrs. Ghada S. Al-Ameen

SELIM SALAM
Sharkawi Bldg., Selim Salam Avenue.
Tel: (961-1) 318824. Fax: (961-1) 318657.
Branch Manager: Mrs. Iman M. Hankir

SERAIL
Bank Audi Plaza, Omar Daouk Street.
Tel: (961-1) 952515. Fax: (961-1) 991287.
Senior Branch Manager: Mrs. Nada N. Rizk

SODECO
Alieh Bldg., Istiklal Street.
Tel: (961-1) 612790. Fax: (961-1) 612793.
Branch Manager: Mrs. Josette F. Aramouni

TABARIS
Saifi Plaza, Fouad Shehab Avenue
& Georges Haddad crossroad.
Tel: (961-1) 992335-9. Fax: (961-1) 990416, 990516.
Branch Manager: Mrs. Raghida N. Bacha

ZARIF
Salhab Center, Algeria Street.
Tel: (961-1) 747550. Fax: (961-1) 747553.
Branch Manager: Mr. Taha N. Keshly

MOUNT LEBANON
AIN EL-REMMANEH
Etoile Center, El-Areed Street.
Tel: (961-1) 292870. Fax: (961-1) 292869.
Branch Manager: Mrs. Roula E. Fayad

AJALTOUN
Bou Shaaya & Khoury Center, El-Midane.
Tel: (961-9) 234620. Fax: (961-9) 234439.
Branch Manager: Mr. Jihad A. Sfeir

ALEY
Beshara El-Khoury Road (near Aley Club), Aley.
Tel: (961-5) 556902. Fax: (961-5) 558903.
Branch Manager: Mrs. Olfat A. Hamza

BAABDA
Boulos Brothers Bldg., Damascus International Road.
Tel: (961-5) 451452. Fax: (961-5) 953236.
Branch Manager: Mrs. Hala N. Younes

BOURJ HAMMOUD
Mekheterian Bldg., Municipality Square.
Tel: (961-1) 263325. Fax: (961-1) 265679.
Branch Manager: Mr. Christapor A. Libarian

BROUMMANA
Lodge Center, Main Road.
Tel: (961-4) 860163. Fax: (961-4) 860167.
Branch Manager: Mr. Hadi M. Chaoul

DEKWANEH
El-Nefaa, Main Road.
Tel: (961-1) 693790. Fax: (961-1) 693795.
Acting Branch Manager: Mr. Fady A. Khoury

DORA
Cité Dora 1, Dora Highway.
Tel: (961-1) 255686. Fax: (961-1) 255695.
Senior Branch Manager: Mrs. Hilda G. Sadek

ELYSSAR
Elyssar Main Road, Mazraat Yashouh.
Tel: (961-4) 913928. Fax: (961-4) 913932.
Branch Manager: Mrs. Nisrine N. Chidiac

FANAR
La Rose Center, Main Road.
Tel: (961-1) 879637. Fax: (961-1) 879641.
Branch Manager: Mrs. Grace E. Moussa

GHAZIR
Main Road, Ghazir, Kfarhebab.
Tel: (961-9) 851720. Fax: (961-9) 856376.
Branch Manager: Ms. Roula F. Kmeid

GHOBEYRI
Hoteit Bldg., Shiyah Blvd., Mousharrafieh Square.
Tel: (961-1) 541125. Fax: (961-1) 272342.
Branch Manager: Mrs. Lina A. Hayek

HADATH
El-Ain Square, Main Road.
Tel: (961-5) 464050. Fax: (961-5) 471854.
Branch Manager: Mrs. Rachel J. Sarkis

HARET HREIK
Ahmad Abbas Bldg., Baajour Street, Main Road.
Tel: (961-1) 277270. Fax: (961-1) 547265.
Branch Manager: Mr. Yasser A. Zein

HAZMIEH
Dar Assayad Bldg., Saïd Freiha Street, Hazmieh Roundabout.
Tel: (961-5) 451850. Fax: (961-5) 457963.
Branch Manager: Mr. Charles A. Berberi

HORSH TABET
Central Business Center, Saint Antoine de Padoue Street.
Tel: (961-1) 480483. Fax: (961-1) 480423.
Branch Manager: Mrs. Karla M. Ghaoui

JAL EL-DIB
Milad Sarkis Bldg., Main Road.
Tel: (961-4) 710393. Fax: (961-4) 710395.
Branch Manager: Mr. Salam N. Dagher

JBEIL
Byblos Sun Bldg., Jbeil Roundabout.
Tel: (961-9) 543890. Fax: (961-9) 543895.
Branch Manager: Mr. Chady F. Kassis

JEITA – ANTOURA
Antoura Square.
Tel: (961-9) 235257. Fax: (961-9) 235260.

JOUNIEH
La Joconde Center, Fouad Shehab Blvd.
Tel: (961-9) 641660. Fax: (961-9) 644224.
Branch Manager: Mrs. Rana A. Khoury

KHALDEH
Lebanese Commercial Mall, Saida Highway.
Tel: (961-5) 801988. Fax: (961-5) 806405.
Branch Manager: Mrs. Rana N. Mecharrarfieh

MANSOURIEH
Kikano Bldg., Main Road.
Tel: (961-4) 533610. Fax: (961-4) 533614.
Branch Manager: Mr. Roger D. Chami

MREIJEH
Mreijeh Plaza Center, Abdallah Yaffi Avenue.
Tel: (961-1) 477980. Fax: (961-1) 477200.
Branch Manager: Mr. Hassan Z. Jaafar

NACCASH – DBAYEH
Naccash – Dbayeh Highway, East Side.
Tel: (961-4) 521671. Fax: (961-4) 521677.
Branch Manager: Mrs. Georgina Y. Nakad

RABIEH
Rabieh First Entrance, Street No. 5.
Tel: (961-4) 405950. Fax: (961-4) 416105.
Branch Manager: Mrs. Marthe A. Nawar

ROUEISS
Hoteit Bldg., Hady Nasrallah Blvd.
Tel: (961-1) 541146. Fax: (961-1) 541149.
Branch Manager: Mr. Majed A. Hajj

ZOUK
Val de Zouk Center, Zouk Mikhael.
Tel: (961-9) 211140. Fax: (961-9) 223603, 225505.
Branch Manager: Mr. Pierre E. Harb

NORTH
AMYOUN
Main Road.
Tel: (961-6) 955600. Fax: (961-6) 955604.
Branch Manager: Mrs. Theodora A. Bachawaty

BATROUN
Batroun Square Center, Main Road No. 7.
Tel: (961-6) 642371. Fax: (961-6) 642347.
Branch Manager: Mr. Tannous N. Abi-Saab

HALBA
Main Road.
Tel: (961-6) 692020. Fax: (961-6) 692024.
Branch Manager: Mr. Ali A. Hammad

SHEKKA
Main Road.
Tel: (961-6) 545379. Fax: (961-6) 541526.
Branch Manager: Mrs. Houda A. Azar

TRIPOLI – AZMI
Fayad Bldg., Azmi Street.
Tel: (961-6) 445590. Fax: (961-6) 435348.
Branch Manager: Mr. Georges A. Khodr

TRIPOLI – EL-BOHSAS
Fattal Tower 1, El-Bohsas Blvd.
Tel: (961-6) 410200. Fax: (961-6) 410799.
Branch Manager: Mr. Mohsen A. Dabliz

TRIPOLI – EL-MINA
Mandarine Bldg., Riad El-Solh Street, El-Mina Blvd.
Tel: (961-6) 205100. Fax: (961-6) 205103.
Branch Manager: Mr. Ziad M. Kabbara

SOUTH
BENT JBEIL
Ahmad Beydoun Bldg., Serail Square.
Tel: (961-7) 450900. Fax: (961-7) 450904.
Branch Manager: Mr. Ayoub I. Khreich

MARJEYOUN
Boulevard Hay El-Serail, Jdeidet Marjeyoun.
Tel: (961-7) 831790. Fax: (961-7) 831794.
Branch Manager: Mr. Marwan F. Massaad

NABATIEH
Office 2000 Bldg., Hassan Kamel El-Sabbah Street.
Tel: (961-7) 767812. Fax: (961-7) 767816.
Branch Manager: Mrs. Zeina H. Kehil

SAIDA – EAST
Dandashli Bldg., Eastern Blvd.
Tel: (961-7) 751885. Fax: (961-7) 751889.
Branch Manager: Mrs. Sherine M. Assaad

SAIDA – RIAD EL-SOLH
Wakf El-Roum Catholic Bldg., Riad El-Solh Blvd.
Tel: (961-7) 733750. Fax: (961-7) 724561.
Branch Manager: Mr. Mohamad M. Bizri

SAIDA – SOUTH
Moustapha Saad Street.
Tel: (961-7) 728601. Fax: (961-7) 752704.
Branch Manager: Mr. Mohamad M. Kalo

TYRE
Abou Saleh & Moughnieh Bldg., Main Road.
Tel: (961-7) 345196. Fax: (961-7) 345201.
Branch Manager: Mrs. Lara Z. Yazbeck

TYRE ABBASSIEH
Tyre North Entrance, Main Road, Abbassieh.
Tel: (961-7) 741830-1-2-3. Fax: (961-7) 741835.
Branch Manager: Mrs. Mounira E. Khalife

AL-ZAIDANIEH
Al-Zaidanieh village, Main Road, Majdelyoun.
Tel: (961-7) 724905. Fax: (961-7) 723639.
Branch Manager: Ms. Diana A. Assaad

BEKAA
JEB JANNINE
Majzoub Bldg., Main Road.
Tel: (961-8) 661488. Fax: (961-8) 661481.
Branch Manager: Mr. Wael A. Sobh

SHTAURA
Daher Bldg., Main Road.
Tel: (961-8) 542960. Fax: (961-8) 544853.

ZAHLEH
Beshwati Bldg., El-Boulevard.
Tel: (961-8) 813592. Fax: (961-8) 801921.
Branch Manager: Mrs. Mona K. Doummar

NOVO NETWORK
PALLADIUM DOWNTOWN
Bank Audi Palladium Bldg., Bab Idriss.

ZGHARTA
North Palace Hotel, Kfarhata.

ABC VERDUN MALL
Verdun.

SOLIFAC sal

Zen Building, Charles Malek Avenue, Ashrafieh.
P.O. Box: 11-1121 Beirut - Lebanon.
Tel: (961-1) 209200. Fax: (961-1) 209205.

2.0. | TURKEY**ODEA BANK A.Ş.****HEADQUARTERS**

Levent 199 Bldg., No.199/119, Buyukdere Street,
Esentepe District, Sisli, Istanbul.
Tel: (90-212) 3048444. Fax: (90-212) 3048445.
info@odeabank.com.tr – odeabank.com.tr

BRANCHES**ISTANBUL
MASLAK**

No. 255 (Nurol Plaza), Door No. Z10, Buyukdere Street,
Maslak District, Sariyer, Istanbul.
Tel: (90-212) 3048100. Fax: (90-212) 3481835.
Branch Manager: Ms. Ciler A. Durmaz (Retail)

GUNESLI

No. 65, Osmanpasa Street, 34209, Baglar District,
Bagcilar, Istanbul.
Tel: (90-212) 4646000. Fax: (90-212) 3481840.
Branch Managers: Mr. Irfan M. Sahinkaya (Commercial)

SUADIYE ANATOLIAN CENTRAL BRANCH

No. 406, Bagdat Street, Suadiye District,
Kadikoy, Istanbul.
Tel: (90-216) 4685400. Fax: (90-212) 3481908.
Branch Manager: Ms. Asli O. Yasar (Retail)

KOZYATAGI

No. 12/35, Ataturk Avenue, Sahrayicedid District,
Kadikoy, Istanbul.
Tel: (90-216) 6657000. Fax: (90-212) 3481839.
Branch Manager: Ms. Cagla T. Cavusoglu Yilmaz (Retail)

CADDEBOSTAN

No. 270, Bagdat Avenue, Caddebostan District,
Goztepe, Istanbul.
Tel: (90-216) 4686800. Fax: (90-212) 3481850.
Branch Manager: Ms. Naciye Ebru F. Topdemir (Retail)

NISANTASI

No. 17/2-3, Mim Kemal Oke Street, Harbiye District,
Sisli, Istanbul.
Tel: (90-212) 3738100. Fax: (90-212) 3481853.
Branch Manager: Ms. Umut H. Altayli Yilmaz (Retail)

BEBEK

No. 36, Cevdetpasa Street, 34342, Bebek District,
Besiktas, Istanbul.
Tel: (90-212) 3624700. Fax: (90-212) 3481851.
Branch Manager: Mr. Volkan Z. Korkmaz (Retail)

BESIKTAS

No. 99/3, Barbaros Avenue, Cihannuma District,
Besiktas, Istanbul.
Tel: (90-212) 3961500. Fax: (90-212) 3481879.
Branch Manager: Ms. Aysun C. Ozkan (Retail)

ETILER EUROPE CENTRAL BRANCH

No. 60/A-B, Nispetiye Street, Etiler, Besiktas, Istanbul.
Tel: (90-212) 3591600. Fax: (90-212) 3481872.
Branch Managers: Ms. Mehrzad H. Senefe (Retail)
Mr. Kudret M. Uslu (Commercial)

SISLI

No. 169, Halaskargazi Street, Sisli, Istanbul.
Tel: (90-212) 3734300. Fax: (90-212) 3481874.
Branch Manager: Ms. Hulya H. Kuçuk (Retail)

YESILYURT

Eba Apartmani, No. 17A/1, Sipahioglu Street, Yesilyurt
District, Merkez, Bakirkoy, Istanbul.
Tel: (90-212) 4631100. Fax: (90-212) 3481875.
Branch Manager: Mr. Umut S. Kilic (Retail)

ALTUNIZADE

No. 35/1, Kisikli Avenue, Altunizade District,
Uskudar, Istanbul.
Tel: (90-216) 4001600. Fax: (90-212) 3481886.
Branch Manager: Mrs. Seren M. Sag (Retail)

HADIMKOY

No. 154-156, Hadimkoy Street, Akcaburgaz District,
Esenyurt, Istanbul.
Tel: (90-212) 8667800. Fax: (90-212) 3481885.
Branch Manager: Mr. Hikmet S. Guncan
(Commercial & Retail)

BATI ATASEHIR

No. 59, D:1, Halk Street, Barbaros District,
Atasehir, Istanbul.
Tel: (90-216) 5471200. Fax: (90-212) 3481890.
Branch Managers: Ms. Serap H. Coşkun (Retail);
Ms. Zeynep Y. Erdogan (Commercial); Mr. Kadir A. Kutlu
(Commercial); Mrs. Serap F. Turhan (Commercial);
Mr. Vahap A. Meseoglu (Commercial)

BOSTANCI

No. 97/A, Semsettin Gunaltay Street, Suadiye District,
Kadikoy, Istanbul.
Tel: (90-216) 5791400. Fax: (90-212) 3481894.
Branch Manager: Ms. Gamze A. Vural (Retail)

KADIKOY

No. 46-48, Sogutlu Cesme Street, Kadikoy, Istanbul.
Tel: (90-216) 5421300. Fax: (90-212) 3481898.
Branch Manager: Ms. Tansel M. Coklar (Retail)

KARTAL

No. 2, Sehjade Street, Kordonboyu District,
Kartal, Istanbul.
Tel: (90-216) 5865300. Fax: (90-212) 3481895.
Branch Manager: Mr. Mehmet P. Sakalli (Retail)

TAKSIM

No. 10/1, Tarlabasi Street, Sehitmuhhtar District,
Taksim, Beyoglu, Istanbul.
Tel: (90-212) 31234100. Fax: (90-212) 3481899.
Branch Manager: Ms. Hayal M. Yuksel (Retail)

LEVENT CARSİ

No. 2/1, Yasemin Street, Levent District, Besiktas, Istanbul.
Tel: (90-212) 3395100. Fax: (90-212) 3481903.
Branch Manager: Ms. Digidem M. Yavasoglu (Retail)

UMRANIYE

No. 50/52 A, Alemdag Avenue, Ataturk District,
Umraniye, Istanbul.
Tel: (90-216) 6491200. Fax: (90-212) 3481901.
Branch Manager: Ms. Alev Y. Dogan (Retail)

EMINONU

No. 18, Asirefendi Avenue, Hobyar District,
Fatih, Istanbul.
Tel: (90-212) 4027000. Fax: (90-212) 3481905.
Branch Manager: Mr. Mehmet Cihat H. Erdogan (Retail)

ALTINTEPE

No. 93/A, Bagdat Street, Altintepe District,
Maltepe, Istanbul.
Tel: (90-216) 5872800. Fax: (90-212) 3481915.
Branch Manager: Mrs. Esin B. Unlu (Retail)

Case 1:21-cv-10940-DLC Document 163-3**BAKIRKOY**

No. 45/A, Istanbul Street, Cevizlik District,
Bakirkoy, Istanbul.
Tel: (90-212) 4093100. Fax: (90-212) 3481917.
Branch Manager: Ms. Sibel V. D. Donmez (Retail)

CIFTEHAVUZLAR

No. 173/A, Bagdat Street, Goztepe District,
Kadikoy, Istanbul.
Tel: (90-216) 4682900. Fax: (90-212) 3481916.
Branch Manager: Mrs. Seda H. Yanar (Retail)

BANK’O BRANCH

Olive Plaza, No. 11/8, Ahi Evran Street, Maslak District,
Sariyer, Istanbul.
Tel: (90-212) 2608444. Fax: (90-212) 3481919.
Branch Manager: Mr. Aykut S. Mangaloglu (Retail)

**ANKARA
ANKARA**

Tepe Prime Shopping Mall, Block B, No. 266,
Eskisehir Devlet Street, 9 Km, Dumlupinar District,
Cankaya, Ankara.
Tel: (90-312) 2489800. Fax: (90-312) 2489801.
Branch Manager: Ms. Gulhan H. Pervan (Commercial)

GOP

No. 16, Ugur Mumcu Street, Kazim Ozalp District,
Çankaya, Ankara.
Tel: (90-312) 4553800. Fax: (90-212) 3481858.
Branch Managers: Mr. Hakkı Murat S. Onlem
(Commercial); Ms. Deniz F. Omay (Retail)

BALGAT

No: 106 A, Ehlibeyt Mah. Ceyhun Atuf Kansu Cad.
Balgat, Çankaya, Ankara.
Tel: (90-312) 5927500. Fax: (90-212) 3481877.
Branch Manager: Mr. Keykubat K. Sancaktaroglu
(Commercial & Retail)

UMITKOY

No. 12, Osmanaga Konaklari, Cayyolu 1 District,
Cankaya, Ankara.
Tel: (90-312) 2917300. Fax: (90-212) 3481912.
Branch Manager: Ms. Irem E. Celtemen (Retail)

IZMİR

IZMİR CORPORATE AND COMMERCIAL CENTER
Megapol Tower Business Center, No. 41, Anadolu Street,
Bayrakli, Izmir.
Tel: (90-232) 4951500. Fax: (90-212) 3481837.
Branch Managers: Mrs. Nur C. Polat Ruscuklu
(Commercial); Ms. Nursel A. Esen (Retail)

ALSANCAK

Cumhuriyet Bldg., No. 176-A, Konak District,
Konak, Izmir.
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BURSA**

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